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Let a Thousand Monies Bloom

Ed Mayo and David Boyle

While all the financial commentators are fixated watching the progress of the Euro, they miss what might be an even more significant shift – citizens producing their own currency for themselves. While the politicians have spent the last five years obsessed with the single currency, communities and businesses have been busy starting the many – a whole array of new currencies, fulfilling all the functions of money and often more effectively.

An old feud between the economics of big and the economics of small is coming to a head in relation to the future of money. This goes beyond whose head is on the banknote. Notes and coins are less than 3 per cent of money in circulation anyway. It is a debate that can at last face up to the bigger question of in whose interests the monetary system should work. The outcome in a decade will be simple, and will almost certainly mean many currencies for Europe. The question is, whose interests will they be managed for?

Some aspects of the future of money are already clear: certainly less cash and more smart cards. But economic research has yet to catch up with the idea that is spreading in practice that what underpins money need not be a single centrally issued currency. The debate around a single European currency may be seen in time to come as a distraction from the real changes going on, through the use of new technologies to mimic the essential function of money, which is information.

There are many good reasons for launching a “single” currency for Europe. It may have been necessary to defend communities against the instability of currency traders – who trade over 95 per cent of the \$2 trillion which flashes around the globe every day. But it will also have costs for local communities. Whatever the benefits claimed for reducing transaction costs or business uncertainty, the costs will unquestionably be economic dislocation and deeper inequality.

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It didn't have to be like this. The UK Treasury in November 1989 proposed a common, rather than single, European currency, for use alongside existing currencies. It would have allowed the same benefits of stability and reduced transaction costs to businesses operating across borders, without imposing it on all. If the euro falls apart, this is a good fallback. But even this misses other opportunities for change, to create a money system that operates more fairly and efficiently, and works for the benefit of local communities – which are battered by the increased cross-border competition that the single currency encourages.

The first reform principle would be that you can have more than one system of money. And, in reality, we already do. Air miles, supermarket tokens, mortgages denominated in overseas currencies, corporate barter systems, LETS (Local Exchange Trading Schemes), time money, all fulfil the essential qualities of a money system. Many of these are limited access systems. The author Sholom Aleichem once wrote: "Money is round and rolls away." By limiting access, often to a locality or membership group, it is possible to stimulate trade and enterprise that would be ruled out if competing globally. This is one reason LETS have been associated with a small-scale but energetic revival of crafts, local produce and traditional livelihoods.

For thousands of years, before the railways came, money functioned locally because it couldn't travel very far very fast. There are proven advantages to more local currencies. Some of the most economically successful urban areas – such as Singapore and Hong Kong – are cities with their own city state money. The reason is simple. Local money reflects local conditions, allowing it to offer the feedback and cybernetic loops required for complex systems to thrive. As Jane Jacobs argued:

"Today we take it for granted that the elimination of multitudinous currencies represents economic progress and promotes the stability of life. But this conventional belief is worth questioning ... National or imperial currencies give faulty or destructive feedback to city economies and this in turn leads to profound structural flaws in those economies, some of which cannot be overcome, however hard we try."

This faulty feedback is termed "horseshit economics" by the decentralist economist James Robertson. He tells a tale of how a farmer was brought up to feed chickens on the manure of horses. To get enough for the chickens, he had to overfeed the horse. To feed the horse correctly, he had to underfeed the chickens.

The parallel is setting interest rates and public expenditure at national or supranational levels, which are inappropriate for local economies that may be depressed or buoyant. Why not feed the chickens directly with their own food? Why not allow Liverpool or Newcastle to issue its own currency and set

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its own appropriate rates of interest? This is essentially what a range of community currencies have been developed to do. LETS allows members to exchange goods and services based on a notional unit of money. Virtually unknown 10 years ago, there are now many hundreds of LETS operating in industrialised countries, among about 1,800 local currencies of various kinds. LETS have taken off to the largest extent in the UK (see Table 1). In 1993, when the New Economics Foundation (NEF) helped to start a UK tour by Canadian LETS pioneer, Michael Linton, there were just 20 LETS schemes. But in 1997, there were over 400 schemes with 40,000 participants. LETS are not just for the affluent: unemployed people make up 25 per cent of the membership in the UK.

The most recent addition to this is the arrival of "time money", backed by NEF. Time money schemes, singled out for praise by Anthony Giddens in his book *The Third Way*, are starting in Lewisham, Newcastle, Gloucestershire, Peckham and Watford. Using time as a kind of money has been enormously successful in the US as a way of building social capital. Because everyone's time must necessarily be worth the same, it means that almost anybody can contribute – even if you're a housebound old lady making supportive phone calls to your next-door neighbours, and putting time earnings in the bank by doing so. It means that volunteering has a whole new image. It's not *noblesse oblige* any more – it's mutual. And in the USA, you can now use time money earnings to buy anything from food to health insurance and refurbished computers.

Will a profusion of quasi-currencies bring new life to neglected parts of the economy or simply make our lives a mess? Will corporate money, such as loyalty points, create new opportunities for companies to build trust and community with us, their stakeholders, or will it be used to box us in? Who will be able to access e-money?

These are still early days, both for experiments at neighbourhood level, corporate level and in the internet. There will be failures. And success will also breed the danger of repeating some of the mistakes of conventional money.

Table 1. LETS in Various Countries

Country	Number of schemes	Year LETS introduced
UK	400	1985
Australia	250–300	1987
Germany	180	1994
France	300	1994
Netherlands	75	1993
USA	40	1985
Canada	30	1983

Source: New Economics Foundation.

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But with the profusion of internet currencies as well, from DigiCash to Beenz, it changes the role of the bankers too. If there is a role for the European Central Bank in 10 years time, it is likely to be one of regulating multiple currencies rather than issuing a single one. Even that role was cast into doubt in a speech in Wyoming in August by Mervyn King, the deputy governor of the Bank of England. "The successors of Bill Gates would have put the successors of Alan Greenspan out of business", he said, peering into the future.

The second reform principle is no less fundamental. We are going to need a monetary system in which money itself has less value. It used to be the case that financial markets declined in response to downturns in the real economy. New financial markets are driving changes up and down in the real economy. In, London, Frankfurt and Paris, a wealth of productive talent and intelligence is lost as massed ranks of traders, analysts and bankers get rich by combining to corrupt the financial system. Their function should be to allocate capital from those who have it to those who need it and can use it profitably in the real economy. Instead they focus on money out of money – a self-referential 24-hour world of computer screens, long hours and rich lifestyles.

Volatile swings and massive risk are by-products of a money system in which speculative flows outweigh the real economic function of exchange, which is to service trade, consumption and investment. In the words of James Robertson again, it is as if the game of cricket had been changed so that teams made their score by players betting on how many runs those left at the crease were going to make.

The market economy actually manages less and less of our lives, but those aspects of local life which get sidelined tend just to wither. With local currencies, you can make a difference. They can match the unmet needs with the unused assets. And in many UK communities, those unused assets include reject white goods and last year's model computers, but also the know-how, time and ability to care of the majority of the population which tend to be side-lined by the market economy.

The euro can't bring people together locally to run security patrols or look after the vandalised park. But time money can.

Meanwhile, the international currencies look increasingly unstable. Derivative contracts amount to £36 trillion, which is nearly twice the world gross domestic product. A loss of just 2 per cent would be roughly equal to the total capital of all the world's banks. As Andrew Smithers, chairman of fund managers Smithers & Co, warned last year:

"It seems likely that the derivatives market is massively under-capitalised and it can do this because it is trading off the implicit guarantee of world governments. We the taxpayers who will have to pay when these things go wrong are crazy to allow this."

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The problem is a structural one. Making money out of money has become easier than making money out of real enterprise. In terms of economic theory, money's saving function as a store of value is distorting its information functions, which are to act as a unit of measurement and a means of exchange. Again, while it has historical parallels, this is largely a modern invention. With high interest rates, if you have money, you earn more simply as a result of having it. The burden of interest has a hugely regressive socio-economic effect. New money systems are realising that interest is simply a way of allocating a charge for the use of money. It is not the only way to do so. A large number of community and corporate currencies operate at zero interest, or – as in the case of the JAK banking movement in Scandinavia – negative interest. Money becomes more like equity than debt, having to work to generate a return.

The most significant obstacle to new money systems is the political and bureaucratic élite that thought up the single European currency. Yet decentralisation represents a persistent strand of European political thought. While Jean Monnet, the architect of the EU, was thinking big, Leopold Kohr, author of *The Breakdown of Nations*, was predicting small. The critique of industrial giantism, shared by Kohr's contemporaries Martin Buber and Karl Polanyi, resonates today, echoing in writers such as John Gray and Amitai Etzioni, and in the debate around EMU. It is the struggle of globalisation versus diversity and localism.

Paradoxically, both are needed. As Fritz Schumacher recognised, we need both freedom and order: the freedom of lots and lots of small units and the order of large-scale, possibly global organisation.

Meanwhile, let a thousand monies bloom.

