

Proposal for a Local Village Monetary System Based on Trusteeship

by Robert Swann, January 1979

Current Economic Trends

This proposal for a village monetary system that's totally independent of the national government applies to villages anywhere in the world, even though this discussion relates specifically to India. I am offering it for discussion because of its intrinsic merits—not because of the world monetary crisis. Nevertheless, we are very much aware of the present world monetary crisis, in which even the vaunted U.S. dollar could at any moment come tumbling down.

As a January 11, 1979 article from London's *The Hindu* stated:

The Western world is in a nightmarish situation. Western fortunes are very much tied up with the free flow of oil from West Asia. The West has not recovered from the mid-1973 oil crisis which technically left the free enterprise industrial economies with 20 million skilled men unemployed. ... The Western monetary system has passed through the most turbulent fiscal crisis, and observers here suggest that if the decline of the dollar is not arrested in the next few months, the system may even collapse.

Three days later, Bombay's *Financial Express* reported that the value of the rupee had fallen over 80 percent between 1947 and 1977, and that during the last decade, the rate of inflation increased to almost twice its previous rate.

The *Financial Express* also printed a report about the difficulties encountered by small farmers of India in obtaining loans from banks. These reports make clear that as a matter of survival, it may be necessary in the near future for the rural sector to develop its own monetary unit. Otherwise, the alternatives will be either a return to the clumsy barter system, or the demand for gold will increase and exchange will become difficult to the point of stagnation. For the poorest sector this will be disastrous.

Inflation: A Tax on the Poor

What I hope to emphasize is that of the three monetary powers that national states have usurped—police power, taxing power, and monetary power—monetary power could be nonviolently returned to the people with the least resistance from the state. Just as land reform has been voluntarily undertaken by the Bhoodan/Gramdan movement on a local trusteeship basis, so can the institution of an honest and fair banking or monetary system be accomplished by an alternative, self-reliant monetary system run and controlled by the people and for the people, rather than for the benefit of a few large farmers, financiers, industrialists, and politicians. Moreover, it must be emphasized and repeated over and over again for the benefit of all those persons, even most economists, who are not familiar with the nature of the banking system, that the monetary power is equal—if not superior—to the taxing system of the modern state. This is because the state, through its central banking powers, can issue as much money as it pleases in order to accomplish its political ends. Nationalization of the banks, therefore, has only served the purpose of strengthening the state's monopoly on the issue of money, and thereby its ability to exploit this power for political ends rather than the well-being of citizens. Inevitably, this will lead to greater inflation and degradation of the national currency. The power to monopolize the issue of money could be likened to the power to tax, except that the social costs of issuing or printing nonproductive money is likely to fall more heavily on the poor. Thus we could say that any deliberate inflation of the national currency is a tax on the poor.

Issuing Money for Productive Purposes

What must be constantly kept in mind cannot be emphasized too often, which is that the national state's present use of political power to issue money is not the way money should be issued. This is to say: money issued by the state for nonproductive purposes, such as the purchase of war materials, or the payment of salaries to bureaucrats who produce nothing of real value, creates inflation. For productive purposes, on the other hand, banks are issuing money

through the lending process with great reluctance. Yet it is only for productive purposes, such as planting seeds and other agricultural needs, or for short-term needs of industry, for which money should be issued legitimately in order to insure the absence of inflation. We could say with a fair degree of certainty that if the present system for issuing or printing money were stood on its head, or reversed, and the only issue encouraged or permitted was for the production of food and clothing, there would not be inflation. Additionally, any relatively self-sufficient region that chose to undertake such a revolutionary change could, within a few years, evolve into a flourishing economy.

But in addition, and this must also be emphasized, this can only take place when the issue of money and the banking process are separate from the state and its political purposes, and also only when they come under the social process of trusteeship. That is to say, banking must become an industry carried on under the practice and leadership of persons dedicated to trusteeship.

It hardly needs to be pointed out that of all the commercial sectors created by society, the two that are most logical and important to develop under trusteeship are one, those dealing with the land and natural resources, and two, the banks.

Just as land and natural resources should not be exploited as they are under capitalism, neither should money, which is the necessary medium of exchange, be made the object of profiteering. Just as efforts at land reform tend to become a way for power-seekers to manipulate power once taken over by the state, the state control of the banking industry becomes a means of exploiting the system for political ends, and not for the benefit of the people. In fact, this power can be abused because only a few people understand the significance of it. It is often used without public restraint or protest, because the public does not comprehend how it is being cheated.

The Transfer of Power

This leads us to a question that many people raise as to whether the state will be jealous of the power of the trusteeship to monopolize money issue and therefore try to stamp out by law (or police action) any action by dedicated people seeking to obtain justice and equitable distribution of income for the rural population as a whole, and for the poor in general. I think a number of answers can be made to this question:

In the first place, when faced with clear social or economic injustice, a *satyagrahi* or a nonviolent worker, does not ask the questions merely: Will I be imprisoned or suppressed for my efforts to replace injustice with justice? Rather, he or she determines the morally correct course and proceeds forward.

Second, we must realize that for the most part, the state or politicians will not feel threatened by what will be considered, in the first instance, only a minor movement toward change in the banking system. Presently, most national states do not have laws forbidding the private issue of money. (In the U.S. the only condition for such private issue is that the private currency, usually called "script," must be exchangeable with U.S. dollars.) Such an exchange is easily provided for and all script systems have taken this into account.

Third, the modern state is generally quite preoccupied with other more pressing matters and I doubt will devote much attention to what will be seen as a minor threat. Moreover the state is, in any case, undergoing an increasing process of disintegration or entropy, which I believe will make it less able to suppress any genuine alternatives to its present system.

These are the negative reasons for doubting the power of the state to suppress. On the positive side, there will be many allies in the political and banking sectors that will support such a positive initiative as we are here proposing. Many of these people are aware of the complete inability of the government to solve problems such as inflation, or to help the poor, and the rural sector in general. Properly educated, these people can become allies in the struggle for justice and also co-workers, whose skills and knowledge will be essential to the success of such a movement.

A Separate Monetary System

My prediction is that as the U.S. dollar begins its more rapid collapse, all national currencies will begin to follow, and during the ensuing debacle, people everywhere will be willing to try almost any alternative that offers some protection against the loss of their savings. During this period, barter and gold will return for a while to their time-honored roles. But people are too accustomed today to the convenience of paper money and the checking system, and will be inclined to accept an alternative that offers the same convenience but also offers protection against inflation. If, at that point, we have laid the groundwork through education and small-scale demonstrations, then we may have set the stage for a major breakthrough. This breakthrough would mean the beginning of a universal currency system totally separate from all nation-states and would presage the end of the age of nationalization, the scourge of the nineteenth and twentieth centuries, a scourge that has led to two world wars and still threatens to annihilate the majority of the human race through atomic warfare.

This proposal, although limited in scope, aims toward a larger and total system. It is directed toward those workers in the nonviolent constructive programs, particularly in India, where both the greatest need exists and the most extensive groundwork has been laid by the Sarvodaya. If a beginning can be made here in India, perhaps at least the worst effects of the approaching collapse of the national currency can be averted, and at best a beginning made toward a world currency and the end of nationalistic and international warfare.

For more information, please contact the E. F. Schumacher Society:

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