

The Place for Local Currency in a World Economy: Toward an Economy of Permanence

by Robert Swann, April 25, 1981

Adapted from a talk at a conference titled "Community Survival in the Age of Inflation"

I want to focus on the institution of money and the opportunity now presenting itself to develop a better system than our present one. We need a system that will by nature promote and enhance small-scale institutions, small businesses, cooperatives, small communities, and local towns. At the same time, it needs to be responsive to the needs of ecology. Obviously, the system we have now, which is failing, does not advance these goals. Before discussing that, I want to first touch briefly on the history of money and why I think we are at a unique point in time that is favorable to a new beginning.

Like most institutions that affect society as a whole, many customs grew unconsciously over many generations to form, by convention, our money and banking institutions. During all of this history through to the present years, money institutions were, in fact, small scale and decentralized. They consisted of either direct exchange of goods by barter, or later exchange with metals (gold and silver) of intrinsic value. As a system, banking grew slowly out of the medieval period, which is when goldsmiths first became the caretakers of gold, and later became bankers by using the gold as a reserve for redemption.

I want to clarify what I mean by redemption. Whenever paper money is issued—printed and distributed—by governments, banks, private individuals, or groups, it must be capable of being exchanged for something of real use and value by the government, bank, or individual who issued the currency in the first place. Otherwise, it can justifiably be called counterfeit, because the paper has no intrinsic value. Gold has traditionally been the commodity that governments and banks have offered for redemption of their paper money. But since 1934 in the U.S., the U.S. government and the banks have not redeemed their paper currency in gold—or any other commodity of real value.

The banking system that grew out of the medieval period was, by and large, very diversified with many banks issuing their own currencies. This condition existed right up until the present century. I have in my possession actual bank notes issued by four different banks in New Hampshire during the last century. By the end of the last century, or the beginning of the twentieth century, power was centralized in the emerging nation states, and then banking systems were centralized. Increasingly, they came under the control of the nation state. But the conventions that had grown up around money issue and money control essentially continued in the centralized system. For example, the so-called "fractional reserve" principle, an adopted part of the Federal Reserve System, is based on a convention that arose out of the medieval system of the goldsmiths. Few people understand it—including many of the bankers who use it—but it is an important factor in determining what happens in our lives.

My point is that a very large part of our lives is controlled, or governed by a system over which we have little or no control and do not understand. To a large extent, we have unconsciously accepted a system of money and banking, and we are asleep in our relationship to it. But the hopeful side is that in general, we are becoming more conscious as a society. There is a strong interest in wanting to become more conscious in all of our relationships. The first step that must precede the creation of a new money system is to replace the old one.

In the first place, we must be clear that the present centralized system is failing, as President Carter has

carefully demonstrated. Moreover, we must also understand that for the same reason, it cannot be reformed or made to work by any centralized government. This doesn't mean that governments will not issue a new currency when the present one becomes valueless; they will. But then the new currency will go the same way as the old—only in a shorter period of time.

As we enter into this period of increasing economic crisis, and as the present national currencies decline in value, we will be creating alternative methods for local exchange for the necessity of our own survival, such as the barter and labor exchange systems discussed here. Gradually as these systems become more sophisticated and better bookkeeping or accounting systems are developed, we should see an emergence of some new forms of money. It is in this direction that I want to point in order to visualize how such systems may come about, and how we can begin thinking, planning, and experimenting.

From a legal viewpoint, money is nothing more (or less) than a claim. But from a technology viewpoint, money is a tool. Like any other tool, it can be shaped to perform in different ways. Just as both a scythe and a combine are tools for cutting wheat, money should be designed to perform in different ways with different objectives. In the same way that we are presently designing and creating more appropriate hardware for small-scale needs, we must also be creating an appropriate tool for exchange.

It would have to be simple to understand, but consistent with our experience of the present money system. That is: It would have to consist of both cash (or paper currency) as well as a checking system, or another form of bookkeeping that utilizes the computer to simplify accounting.

Unlike our present money system, it would have to be redeemable or exchangeable in some form in real value. It wouldn't necessarily need to be gold or silver. Rather, it would be something that meets the needs of everyday use, such as energy. Without a redemption system, it would be difficult to convince people of its value. After all, isn't the reason the dollar has become so devalued because it cannot be redeemed for real value by the primary issuer—the U.S. government?

Most importantly, we would need to establish a measurement of value that was as universal as possible, and not subject to value swings up-and-down (as is our present money system). In other words, it would have to remain as constant in value as possible. This would help it establish a sense of permanency and security as well as make it more practical for exchange to take place. Such a method of measurement would be the most revolutionary element in the design, and would be the key factor in creating a universal system of money and banking that worked without the need for central banks or governments to become involved in money issue.

Once this standard of value had been arrived at, the state or federal government could monitor it, just as the Bureau of Standards maintains and monitors other standards of measurement, such as weights and units of space. However, it would not require state intervention into the economic sphere as is now the case.

And finally, it would have to be organized at the local level and controlled by the community as a whole. For example, each community would elect members of the board of the issuing bank, which would preferably be a nonprofit institution. Under such structure, banking would become truly more

of a profession; bankers would be paid for their services, but the community would decide how and where its savings were to be reinvested.

Let me reiterate briefly these four specifications: A local, appropriately scaled currency should be:

1. Consistent with customary practices (cash, checking, and accounting systems);
2. Redeemable in real goods of everyday value;
3. Based on local production, upon a universal measure of value;
4. Organized at the local level, and by the community as a whole.

To illustrate possible answers to the question, “How would it be issued?,” we have some historical and present-day examples. During the Great Depression of the 1930s, a number of local currencies were created and issued by towns in Europe and by groups of cooperating merchants in the U.S. Switzerland has a system called WIR (“the ring”). Created by the merchants of several towns, the WIR uses a checking system by which members can purchase and sell goods in exchange for the WIR currency. In Los Angeles, a similar system that has been computerized makes exchanges possible between merchants without the use of U.S. dollars. In all of these cases, the new currency or script is measured in the national currency, and uses national currencies for a reserve system. Whenever suppliers, or manufacturers do not accept the local currency, national currency on reserve was available for exchange.

In part, these systems have worked because they simply expand the volume of business possible for each market. However, in times of runaway inflation, such a system would be less likely to work, since the reserve currency—the national currency—would not have any value. We must therefore look to use some commodity of universal value for our reserve currency.

In order to make as clear as possible what is suggested here, I would like to make a simple proposal that we consider using some form of energy as the unit of measurement and as the reserve currency for redemption purposes. It is generally recognized that energy is a factor in all forms of production and in meeting the needs of society as a whole. In this respect gold, commodities or resources that provide essential energy are replacing gold as the traditional form of reserve currency. Thus oil is referred to as “black gold.”

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

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