

Reclaiming the Credit Commons

Towards a Butterfly Society

By Thomas H. Greco, Jr.

By now, local currencies and alternative exchange systems have become familiar themes in the media, even in mainstream newspapers like the *Wall Street Journal*, *The Guardian*, and *Der Spiegel*, as well as on both local and network TV. These reports focus mainly on attempts to keep money circulating locally instead of “leaking out,” as a way of enhancing the vitality of local economies and improving the prospects of local businesses in their struggle to compete with large corporate chains.

All of that is well and good, but it misses the main point of what ails our communities—and our world. The problems facing our communities, and civilization as a whole, stem from *the very nature of money* and the mechanisms by which it is created and allocated by the members of the most powerful cartel the world has ever known. The entire global regime of money and banking has been designed to centralize power and concentrate wealth in the hands of a ruling elite, and it has been doing that ever more effectively for quite a long time.

In every developed economy, labor is highly specialized. Very little of what we need do we make ourselves. This fact makes the exchange of goods and services necessary for subsistence. But primitive barter is inefficient and dependent upon a coincidence of wants or needs—“I have something you want and you have something I want.” If one of us has nothing the other wants, no barter is possible. Money was invented to enable exchanges that fall outside the local tight-knit communities in which less formalized modes of give and take are possible. It makes possible trade that is occasional and impersonal.

Money is first and foremost a medium of exchange, a kind of place-holder that enables a seller to deliver real value to a buyer, then use the money received to claim from the market something that s/he needs from someone else.

In earlier times, various commodities that were generally useful served the purpose of exchange media. I might, for example, have no personal use for tobacco, but knowing that many others desire it, I might accept it in payment for my apples. The same goes for gold and silver, which eventually became the preferred commodities for use as exchange media.

But money has evolved over time; money is no longer a “thing.” It is *credit* in a system of accounts, which manifests mainly as “deposits” in banks, and only secondarily, in small amounts, as paper currency notes. Every national currency is supported by the collective credit of everyone who is obliged by law to accept it.

Quite simply, we have allowed the *credit commons* to be privatized so that it can be accessed only by appealing to some bank to grant a “loan.” Someone must go into debt in order for money to come into existence. But nothing is being loaned; banks simply create the money on the basis of the “borrower’s” promise to pay. As I put it, *we give our collective credit to the banks then beg them to lend some of it back to us — and we pay them interest for the privilege.* The result is a chronic scarcity of money within the productive sector of the economy, even while money is lavished upon central governments to enable *deficit spending* to finance wars, bailouts, and all manner of wasteful spending.

But the worst aspect of the present global money system is its built-in requirement for continual growth – what I call *the growth imperative*. This stems from the fact that money is created on the basis of interest-bearing debt, so that the amount owed increases simply with the passage of time. But compound interest is an exponential growth function, which means that debt grows, not at a constant steady pace, but at an accelerating rate. The global money system requires the further continual expansion of debt in order to avoid financial collapse. Thus the bubble-and-bust cycles we have seen become ever more extreme, and the competition amongst borrowers for an insufficient supply of money results in ever increasing environmental despoliation and social degradation.

The credit commons has been the most overlooked aspect of the commons, yet it is the most crucial, because credit is the very foundation and substance of modern money, and money is the essential medium for exchanging goods and services. Whoever controls money controls virtually everything in the material world. The privatization of the credit commons has not only enabled the few to exploit the many, it has also driven economic expansion beyond any reasonable limits and fueled conflict over the control of resources around the world.

In a previous era, the world power structure was based on a collusive arrangement between political authority and religious authority. Kings, emperors and princes relied upon the ecclesiastical hierarchy to legitimize their rule. So long as the people were dependent upon the church and its priests for salvation and admission to “heaven,” they docilely accepted that state of affairs, but as beliefs began to change, ecclesiastical authorities lost most of their influence. Today, the global power structure is based upon a collusive arrangement between political authority and financial authority. Even in nominally democratic countries, it is the top level bankers and financiers and their minions in the media, education, medicine and other areas who select political leaders and determine public policy. So long as people depend upon the money that bankers create for their material “salvation” and admission to the “good life,” that state of affairs will continue causing the masses -- the guarantors of government debt – to sink ever deeper into the quicksand of debt-bondage.

The interest that must be paid to “borrow” our own credit from a bank is not the only parasitic element in this system. Another is the inflation of the money supply that accompanies

government's deficit spending. Most national governments consistently spend beyond their incomes, sucking real value out of the economy in return for counterfeit money that the banks create for them under color of law. This debasement of the currency inevitably results in higher prices of basic necessities in the marketplace. To these drains you can add the obscene salaries and bonuses that insiders pay themselves to run the system, and the periodic bailouts that they extract from governments.

The picture becomes crystal clear to anyone willing to take a close look at it: The dominant system of money and banking, based as it is upon usury and the centralization of power and wealth, has visited untold misery and injustice upon the human race and the entire web of life on planet Earth. It is a system that cannot be reformed; it can only be transcended.

Transcending the Money System?

The good news is that we need not be victims of a system that is so obviously failing us. We have in our hands the power to reclaim the credit commons. We can do it peacefully and without attacking the entrenched regime. It only requires that we each take control of our own credit and give it to those individuals and businesses that merit it and withhold it from those that do not, and for us to apply our talents and energies to those enterprises that enhance community resilience,¹ sustainability, self-reliance, and the common good.

We have all been conditioned to chase after money as a way of providing ourselves and our families with the material necessities of life, but money has become an instrument of power, a contrivance that enables the few to control the course of human events. So long as we remain enthralled with the pursuit of money, we are all puppets on a string and must do the bidding of the puppet-masters—that small elite who, granting them the best of intentions, act from a place of narrow self-interest, error, and gross delusion.

Perhaps they will some day see the light, but we cannot afford to wait. The answer lies in learning to share, cooperate, and reorganize to create what I like to call the “Butterfly Society.” Community currencies and exchange systems provide an essential tool kit for community- and self-empowerment, but they need to be designed in such a way as to make us less dependent upon political money and banks. Private exchange media should be issued on the basis of the value created and exchanged by local producers, especially the small and medium sized businesses that form the backbone of any economy. This means that a currency must be *spent* into circulation *not sold* for money. It is possible to organize an entirely new structure of money, banking, and finance, one that is interest-free, decentralized, and controlled, not by banks or central governments, but by individuals and businesses that associate and organize themselves into cashless trading networks.

In brief, any group of people can organize to allocate their own collective credit amongst themselves, interest-free. This is merely an extension of the common business practice of selling on

¹ On the concept of resilience see Rob Hopkins' essay on pp. xxx – xxx.

open account—“I’ll ship you the goods now and you can pay me later,” except it is organized, not on a bilateral basis, but within a community of many buyers and sellers. Done on a large enough scale that includes a sufficiently broad range of goods and services, such systems can avoid the dysfunctions inherent in conventional money and banking. They can open the way to more harmonious and mutually beneficial relationships that enable the emergence of true economic democracy.

Mutual Credit Clearing – Cashless Trading

This approach is no pie-in-the-sky pipe dream. It is proven and well established. Known as mutual credit clearing, it is a process that is used by hundreds of thousands of businesses around the world that are members of scores of commercial “barter” exchanges that provide the necessary accounting and other services for cashless trading. In this process, the things you sell pay for the things you buy without using money as an intermediate exchange medium. Instead of chasing dollars, you use what you have to pay for what you need.

Unlike traditional barter, which depends upon a coincidence of wants and needs between two traders who each have something the other wants, mutual credit clearing provides an accounting for trade credits, a sort of internal currency, that allows traders to sell to some members and buy from others. There are reportedly more than 400,000 companies world-wide who, in this way, trade more than \$12 billion dollars worth of goods and services annually without the use of any national currency.

Perhaps the best example of a credit clearing exchange that has operated successfully over a long period of time is the WIR² Economic Circle Cooperative. Founded in Switzerland in the midst of the Great Depression as a self-help organization, WIR provides a means for its member businesses to continue to buy and sell with one another despite a shortage of Swiss francs in circulation. Over the past three quarters of a century, in good times and bad, WIR (now known as the WIR Bank) has continued to thrive. Its more than 60,000 members throughout Switzerland trade about \$2 billion worth of goods and services each year, paying each other, not in official money, but in their own accounting units called WIR credits.

Credit Commons: A Peaceful Revolution for a Happier Society

The challenge for any network, of course, is to achieve sufficient scale to make it useful. The bigger the network, the more opportunities it provides for cashless trades to be made. In the early stages, it may require some help to find those opportunities, but as the members discover each other and become aware of what each has to offer, the benefits of participation become ever more evident and attractive.. Like Facebook, Twitter, MySpace and other networks that are purely social, cashless trading networks will eventually grow exponentially—and that will mark a revolutionary shift in political as well as economic empowerment. It will be a quiet and peaceful revolution brought on,

² WIR, an abbreviation for “Wirtschaftsring-Genossenschaft” is the German word for “we.”

not by street demonstrations or by petitioning politicians who serve different masters, but by working together to use the power that is already ours—to apply the resources we have to support each other’s productivity and to give credit where credit is due.

Through participation in an exchange network that is open, transparent and democratic, members enjoy the benefits of:

- A reliable and friendly source of credit that is interest-free and community controlled.
- Less need for scarce dollars, euros, pounds, yen, or other political money.
- A stable and sustainable means of payment.
- Increased sales.
- A loyal customer base.
- Reliable suppliers.
- A more prosperous and livable community.

What will it take to make mutual credit clearing networks go viral the way social networks have? That is the key question, the answer to which has heretofore remained elusive. While the WIR has been an obvious success, it seems to have been intentionally constrained and prevented from spreading beyond Swiss borders. And while commercial “barter” has been significant and growing steadily for over forty years, it’s volume is still tiny in relation to the totality of economic activity.

As they are operated today, commercial trade exchanges are self-limiting and typically impose significant burdens upon their members. These include onerous fees for participation, exclusive memberships, limited scale and range of available goods and services within each exchange, the use of proprietary software, and insufficient standardization of operations which limits the ability of members of one trade exchange to trade with members of other exchanges.

Virtually all commercial trade exchanges are small, local, and operated as for-profit businesses. Small scale, local control, and independent enterprise are all desirable characteristics. But when it comes to building a new exchange system, something more is required. What the world needs now is a means of payment that is locally controlled but globally useful. That means giving members of a local trade exchange the ability to trade with members of other exchanges easily and inexpensively, with little or no risk.

Here are the things that I believe are needed for cashless trading based on mutual credit clearing to go viral:

1. Members need to offer to the network, not only their slow moving merchandise and luxury services, but their full range of goods and services at their usual everyday

prices. This will assure the value of the internal trade credits and make them truly useful.

2. Like any “common carrier,” trade exchanges should make membership open to all with little qualification.
3. Lines of credit (the overdraft privilege), however, must be determined according to each member’s ability and willingness to reciprocate, measured, for example, by her record of sales into the network.
4. Trade exchanges must be operated for and by the members in a way that is transparent, open, and responsive.
5. Members must exercise their duties to provide proper oversight and supervision of those assigned to manage the exchange.
6. There must be sufficient standardization in the operation of trade exchanges to assure that their internal credits maintain comparable value.

As trade exchanges master these dimensions of design and operation, they will become models for other exchanges to follow. Then the rapid growth phase will begin, leading eventually to an Internet-like global trading network that will make money obsolete and enable a freer, more harmonious society to emerge.

References

Greco, Jr., Thomas H. (2009): *The End of Money and the Future of Civilization*.

Greco, Jr., Thomas H., and Megalli, Theo, (2005): *An Annotated Précis, Review, and Critique of Prof. Tobias Studer's WIR and the Swiss National Economy*.

<http://reinventingmoney.com/documents/StuderbookCritique.pdf>

Riegel, E. C. (1973) *Flight From Inflation*.

Websites: *Beyond Money*, <http://beyondmoney.net>, and *Reinventing Money*, <http://reinventingmoney.com>.

Videos: *The Essence of Money: A Medieval Tale*, available at, http://www.digitalcoin.info/The_Essence_of_Money.html, or, <http://www.youtube.com/watch?v=qBX-jaxMneo>

Money as Debt: <http://www.moneyasdebt.net/>

WIR Bank Video Report: http://www.atcoop.com/WIR_Video_3.htm