PEOPLE-CENTERED ADJUSTMENT:

TRANSCENDING THE DEBT CRISIS AND CREATING A FUTURE OF ABUNDANCE, FREEDOM, AND GLOBAL HARMONY

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ISN'T IT IRONIC THAT, DESPITE THE TREMENDOUS scientific and technological advances, and the massive increases in material production that have been achieved over the past two centuries, the world now finds itself in the grips of an acute multidimensional crisis with one quarter of the world's population living in poverty and squalor? Recent alarms about carbon emissions, global warming, peak oil, resource depletion, burgeoning debt and financial crises have raised the general level of awareness that civilization is now at a turning point, but we have seen little in the way of explanation, other than vague references to human nature and greed.

This is not the natural order of things, and it is no accident. It is the consequence of our reliance upon a deeply flawed and unfair system of money, banking, and finance. It is no mere coincidence that the *most pressing aspect of our global predicament is the debt crisis* which has become especially acute over the past few years. People and governments are falling ever more deeply into debt, and disparities of income and wealth are increasing everywhere. The levels of debt carried by all sectors, both private and governmental, have grown exponentially – much more rapidly than population or any measure of economic output. Virtually every national government around the world is struggling to find a way to avoid defaulting on their debts, and people even in the world's richest and most advanced countries are being told that their governments cannot provide them with the basic requirements for living a dignified life. We are told that social programs must be drastically cut because countries can no longer afford them. Why are we in such a predicament, and where are we to look for workable approaches to solving it?

In order to meet the challenge before us, it is necessary for us to understand the broad context of politics and power and how the systems of money, banking, and finance have all been structured to centralize power and concentrate wealth, serving the interests of a few at the expense of all. I will attempt here to briefly describe what I've learned about the basic cause of our predicament, and outline the means by which we can turn the tide of history toward happier, more democratic outcomes.

CAPTIVE GOVERNMENTS

Our first impulse is to look to government to solve such problems, but the recent government actions, including massive bank bailouts that shift the burden of private losses onto the shoulders of the general public have made it clear that governments' priority is to maintain, at any cost, the flawed system that has, for a very long time, been ever more effectively centralizing power and concentrating wealth. The political machinery has been so thoroughly captured by the elite corporate interests, especially those that control the mechanisms of money, banking, and finance, that we are forced to look elsewhere for solutions. Despite the much vaunted rhetoric about the spread of democracy and "government by the people," the reality throughout the world remains much different. Thirty plus years of research and analysis have convinced me that *true political democracy cannot prevail until economic democracy has been achieved, and economic democracy cannot be achieved without transcending the global, central-banking,* *interest-based, debt-money regime and the debt-growth imperative that is built into it.*

THE *GROWTH IMPERATIVE*

All but a handful of economists and political leaders still believe that the answer to our problems is more economic growth –more production, more consumption, more highways, more buildings, more logging, more fishing, etc., ad infinitum. And, of course, with all of that comes not only environmental despoliation, but ever more debt. Any sane person should be able to see that continuous growth on a finite planet cannot be sustained – development and qualitative improvement, yes, quantitative growth, no.

This addiction to growth stems from the way in which money is created, and a general unwillingness to admit that the prevailing system of economics is incapable of fairly distributing the benefits of civilization's progress. To understand the growth imperative, one must first understand the nature of modern money. Quite simply, *money today is credit created on the basis of loans made by banks at interest.* This interest burden on the debt by which money is created causes debt to grow exponentially simply with the passage of time. It therefore requires that banks create ever more debt to enable the payment of the interest due on existing loans. Such is the *debt imperative* which gives rise to a *growth imperative* as debtors struggle to acquire enough money from the market to service their debts. Individual debtors must try to increase their incomes from wages and micro-enterprise, companies must try to increase sales and profits, and government must try to increase their revenues from taxes and fees.

Among other things, the debt/growth imperative prevents the emergence of a steady state economy because no amount of production and increase in business activity can bring about an automatic increase in the amount of money. *Only by deliberate actions by banks to grant more loans can the supply of money be increased*[1].

COMMUNITY EMPOWERMENT AND THE EMERGENCE OF ECONOMIC DEMOCRACY

I believe that the vast majority of people in the world share with me the burning desire to live in a world that is more inclusive, participatory, just, harmonious, and sustainable. If our political and financial establishment cannot provide that, then *we the people* must create it ourselves.

Fortunately, there exists a peaceful and ready path that leads toward liberation and a world that works for everyone. It will require the devolution of power to the community level and decentralization of control in order to bring about the necessary massive positive shifts in collective human behavior. The key to empowerment lies in rethinking the ways in which we pay one another for the goods and services we need and want. By claiming and exercising the power we already have, we can escape the "debt-trap" and avoid the destruction of our communities, our nations, and the natural environment. Once the flawed money system has been transcended, resolution of the other aspects of the mega-crisis, will then become possible.

There are a few things that individuals can do to empower themselves and improve their situation, but within the context of the complex global economy and deepening crisis, the effectiveness of isolated individual action is greatly limited. *It will require organized, coordinated, collective action to save civilization.* It may seem paradoxical, but that kind of action is more likely to come from the collective intelligence and wisdom of ordinary people dealing with their own problems in the own local communities, than from the knowledge and impulses of a few self-appointed "leaders" who have somehow managed to climb to the top of the heap in the global game of "monopoly[2]." While competition has a role to play in urging us to higher levels of realization, science shows us that life thrives more on cooperation than on competition.

What is required is organized action that:

1 ~ Builds community and restores all aspects of "the commons," including the *credit commons*[3].

2 ~ Supports the localization of economic activity – local production and distribution, local sourcing of inputs, and local investment of local resources.

3 ~ Provides a significant measure of independence from conventional money, banking and finance.

The first two of these cannot be effectively achieved without accomplishing the third, and all of this implies the need for *local* organization at a small, "human scale."

THE TRANSFORMATION OF MONEY

The primary function of money is to serve as a medium of exchange, *i.e.*, as a means of payment to facilitate the reciprocal exchange of goods and services. But conventional political money is centrally controlled by central banks and central governments, and manipulated to serve their own interests at the expense of everyone else. *Community interests can only be advanced by communities assuming control of their own credit.*

There are two ways to provide "home-grown" sources of "liquidity," or means of payment. One is the emission of private currencies by local "trusted issuers;" the other is the organization of local trading circles called *credit clearing exchanges*.

To illustrate the first case, imagine a local electric power company or telecom company issuing its own currency vouchers by using them to pay its suppliers and employees. These vouchers, being redeemable for electric power or telecom services, have inherent value to anyone who has need for these services, which presumably would be a large portion of the local population. If the vouchers were made transferrable and issued in conveniently small denominations, they could easily pass from hand to hand as a sort of local money that anyone might use to pay for other goods and services. There is plenty of historical precedent for such private currencies that have been circulated at various times by a wide variety of issuers. The only requirements for a sound and effective private currency are that it be:

1 ~ Spent into circulation or given as a rebate to customers,

2 ~ Transferrable, with few or no restrictions,

3 ~ Redeemable at face value by the issuing entity for the goods and services that the it offers for sale at the issuer's regular everyday prices.

Such private currencies and vouchers that are spent into circulation by local enterprises can provide local liquidity without reliance on bank loans and without the payment of interest. Currencies might also be issued by municipal governments or agencies on the basis of their anticipated tax or service revenues, and by non-profit organizations on the basis of in-kind donations pledged by local merchants and service providers.

A credit clearing exchange is an association of producers that agree to provide their goods and services to each other without payment in conventional money. Instead, they simply keep accounts in which a sale is recorded as a "credit" which increases their account balance, and a purchase is recorded as a "debit" which decreases their account balance. In the long run, it is expected that each member will put into the association as much value as s/he takes out from it. In other words, the value of a member's purchases is offset by the value of their sales. In accounting terms, it can be looked at as an offset of accounts payable against accounts receivable.

This is merely an extension of the common business practice of selling on 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.

This approach is not entirely new. It is a proven and well established process that is used by hundreds of thousands of businesses around the world that are members of scores of commercial trade exchanges (sometimes called "barter" exchanges) that provide the necessary accounting and other services for moneyless trading. In this process, the things you sell pay for the things you buy without using money as an exchange intermediary. Instead of chasing dollars, euros, pounds, etc., 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, 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, presently trade more than USD12 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 WIR[4] Economic Circle Cooperative. Founded in Switzerland in the midst of the Great Depression as a self-help organization, WIR provided a means for its member businesses to continue to buy and sell with one another despite a shortage of Swiss francs in circulation at the time. 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 65,000 members throughout Switzerland trade about USD 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.

Businesses, especially small and medium sized enterprises (SMEs), typically find that the availability and cost of conventional money obtained as loans from banks, is unpredictable, unreliable, and expensive. Unlike national currencies that are subject to the policies and machinations of governments and banks, community currencies and exchange credits are readily available and dependable because they:

- Are created and controlled locally by local producers themselves based on their capacity to provide each other with desired goods and services.
- *Are always redeemable for goods and services at regular prices.*

- Remain in the local area so they promote "buy local" and stimulate more local production over imports from outside.
- Are accepted throughout the community in payment for all kinds of goods and services.
- Strengthen the entire local economy by providing a supplemental means of payment, especially during depressions when official money is scarce.
- Enhance the communities' quality of life.

While private currencies and credit clearing exchanges have in recent years proliferated around the world, a few additional steps are needed to complete the necessary transformation. It is now necessary to:

1 ~ Optimize and standardize the procedures and protocols involved in the allocation of credit and currency issuance.

2 ~ Provide mechanisms for exchanging private currencies and credits for one another.

3 ~ Organize trade exchanges together into wide area networks to enable trading between widely separated members of different exchanges.

4 ~ Increase the amount and variety of goods and services offered.

5 ~ Include all levels of the supply chain – retailers, wholesalers, manufacturers, basic commodity producers, and ultimately, employees/consumers.

6 ~ Eventually, private currencies and credits will need to be denominated in some concretely defined, independent, and universal measure of value[5].

WHAT GOVERNMENTS SHOULD DO TO ESTABLISH ECONOMIC AND FINANCIAL STABILITY

In my book, *The End of Money and the Future of Civilization*, I traced the events and actions that have lead to the politicization of money and banking and described how national governments in collusion with global financial interests have arrogated power to themselves by their abusive issuance of money, abandoning all semblance of monetary and fiscal responsibility, and I argued that government control of money needs to be ended (the separation of money and state). Now let us consider what central governments *could* and *should* do if they were truly interested in serving the common good and promoting a just and harmonious world.

I strongly believe that the most promising approach to the necessary transformation is through private, voluntary initiatives that mobilize resources, empower communities, and restore the "credit commons." So, while I am not at all sanguine about the near-term prospects for the success of political approaches to monetary reform, it is necessary to recognize the power of national governments and the role they might *eventually* play in producing positive outcomes. It is most unlikely, but still conceivable, that some enlightened government in some small country somewhere might be willing to lead the way by renouncing its abuse of the money issuance power and by supporting the kinds of community-based and private exchange mechanisms I have described. So let me outline the specific kinds of legislative and executive actions that are needed.

In light of the dysfunctions inherent in the present global monetary regime that have already been described, I would advocate for legislation that would achieve the following objectives:

- protect against both inflation and deflation,
- eliminate involuntary unemployment;
- protect against the effects of international economic and financial instabilities;
- provide a greater measure of independence from foreign economic and political manipulations, and
- enable the emergence of effective and efficient means for mediating the exchange of goods, services and financial instruments.

It is well within the realm of possibility to achieve all of these objectives, and there exists a solid base of knowledge and experience that makes evident the structural changes that are necessary to do so. The main obstacles to implementing these changes are governments' addiction to deficit spending and their subservience to the vested interests of international finance that manipulate money and finance to serve their own narrow interests.

Inflation is possible only under the circumstance where there is a monopoly on the issuance of money and that money is compelled, by means of "legal tender" laws, to circulate at face value. By putting an end to the issue monopoly and repealing all general legal tender laws, the inflation problem will be solved. These actions, of course, imply the existence of an objective, concrete standard of value, as well as competing exchange mechanisms (competition in currency). Governments must allow private alternative exchange media that are (1) subject to free market valuation and (2) the right of anyone except the issuer to refuse to accept such currencies.

The central banks of all countries are closely interlinked enabling a few individuals to control the national and global economies, to subvert democratic government, and to exploit the people through their monopolization of credit. By their alternating policies of credit liberalization followed by credit restriction, they cause recurrent cycles of bubble and bust, inflations and recessions with their attendant miseries of diminished purchasing power, bankruptcies, foreclosures, and unemployment.

The global interlinking of banking and finance, and the institutions and procedures that promote chronic indebtedness, have enabled the banks of the developed countries to dominate the economies and governments of lesser developed countries (LDC's). Countries like Ecuador, which have accepted the US dollar as their own domestic medium of exchange, have made themselves completely dependent upon the dollar and the US banking system. In no case should the exchange of goods *within* a country be rendered impossible because there are disturbances in finance *outside* the country. The ill effects of such disturbances can be avoided if private exchange alternatives exist. Thus, governments should permit private entities to establish clearing banks as a self-help measure, *without any government restrictions, discriminatory taxes, or subsidies.* Only mechanisms that ensure openness and transparency should be required. The task of these clearing banks should be to bring into contact the available raw materials with the existing labor power, and the available products with buyers' needs, without requiring payment in conventional money. They will thus contribute significantly to the general facilitation of the exchange of goods and services and the abolition of involuntary unemployment. *These clearing banks are able to guarantee domestic liquidity regardless of conditions elsewhere.* The disadvantages suffered by the provinces and certain deprived sectors, such as agriculture, will be diminished, and the exchange of goods within the country will become independent of the currencies of foreign countries.

LEGISLATIVE PROPOSALS IN BRIEF[6]

PROPOSAL I ~ STABLE VALUE RECKONING AND PROTECTION AGAINST INFLATION AND DEFLATION

Stable value reckoning in all transactions is essential to an orderly, equitable, and efficient economy. It is therefore necessary that a unit of account be defined in unambiguous terms. The avoidance of inflation (and deflation) requires that there be a measure of value that is independent of, and separate from, any national or other currency, and that no currency, either public or private, be invested with general legal tender status. A truly stable value reckoning is quite impossible as long as legal tender exists. It is therefore proposed that:

1 ~ All laws granting general legal tender status be repealed,

2 ~ That the official unit of account be declared on the basis of a specific value standard that is defined in concrete physical terms. It should be comprised of a specified amount of some commodity or group of commodities, *e.g.*, 371.25 grains of fine silver (the original definition of the US dollar), or, much preferably, a composite standard comprised of specified weights or volumes of selected standard commodities. (See note 3).

PROPOSAL II ~ EXCHANGE UTILITIES

The substance of modern money is credit and every currency is a credit instrument. The proper functioning of an economy requires that the exchange process be unencumbered by monopoly control over credit by any government, private entity, or cartel. To restore the disturbed private economy, eliminate unemployment, and enable a more complete matching of economic needs with actual and potential supplies, institutions must be established that make free reciprocal exchange in the economy possible. It is therefore proposed that:

1 ~ Governments should not interfere with, and indeed should encourage, the establishment and operation of private credit clearing utilities that are voluntarily subscribed to, and operated according to agreed standards of honesty, openness, and transparency.

2 ~ That there should be no interference with the issuance and circulation of private currencies that are issued upon proper foundation and in accordance with agreed standards of honesty and transparency.

PROPOSAL III ~ PUBLIC FINANCE

There should be a strict separation between money and the state. Any financial instruments issued by the government must be made to stand upon their own merits in the financial markets. It is therefore proposed that:

1 ~ No government-issued security, including bonds, warrants, notes, vouchers, or other instruments intended to circulate as currency, should be forced to circulate at face value by means of legal tender laws or otherwise. Likewise, long-term government debts in such forms as bonds or notes should enjoy no special privilege regarding their acceptance or value in the market.

2 ~ Government may, if it wishes, finance its short-term needs through the direct issuance from the Treasury of non-interest bearing tax anticipation warrants, but the rate, relative to the value standard, at which

such warrants are accepted as payment by private parties shall be determined by the parties themselves in the free market, and *not* be compelled by legislation. *Only the government itself shall be compelled to accept its own financial instruments at face value.*

3 ~ There should be no further monetization of long-term government debts by "open market operations" of central banks, or otherwise.

4 ~ Outstanding government debt should be gradually reduced.

5 ~ Since there is no longer any role for it, the central bank shall be abolished, and government finances should be managed directly by a department of the government.

Such actions as these would force central governments to balance their budgets, but would not totally preclude them from issuing their own currencies[7]. But if a government currency is made to circulate on its own merits in competition with other exchange media, the amount of currency issued would need to be kept within reasonable limits, in proportion to its anticipated revenues from taxes and fees, to prevent its being discounted or refused in the market. A government could spend its own small denomination no-interest bonds into circulation as a way of paying for its immediate needs, guaranteeing to redeem these bonds, not in gold or other currency, but by accepting them *at face value* in payment for taxes and fees. Additional longer-term financial needs would have to be financed in the conventional way of selling interest-bearing bonds to the public at the market rate.

The Rentenmark, that was issued in Germany following the great currency inflation of 1921 to 1923, provides a useful model for a government issued currency. Ulrich von Beckerath described it as follows:

> The Rentenmark had neither a forced market rate nor was its acceptance in general circulation enforced [it was not "legal tender"]. It was not redeemable in gold, although it was made out in gold. It was guaranteed by tax foundation (par. 14, no. 3 of the Act), that is, all taxation offices accepted the Rentenmark at its face value irrespective of any market discount. Inasmuch as the aggregate amount issued (2,000 million marks) corresponded to the revenues of those offices for only two months, Lorenz von Stein's "safety coefficient" (namely total of State paper money not more than a third to a half of the annual requirements of the public revenue offices) was far from reached. In order to make a concession to popular opinion, the Act referred to a cover by landed property, but at the same time the Act provided that no one was obliged to surrender real estate property for Rentenmarks. Also, a small annual contribution was imposed on landowners and manufacturers; but this was not collected because it naturally proved superfluous for safeguarding the currency[8].

Recapping what we said earlier, the features that enabled the Rentenmark to maintain its value were these:

1 ~ the Rentenmark was acceptable by all tax offices *at face value* in payment of taxes,

2 ~ there was no legal compulsion for anyone else to accept it, thus it was made to stand on its own merits in the marketplace and might legally pass at a discount from face value in private transactions,

3 ~ the amount issued was modest in relation to the tax revenues that supported it.

Are there any national political leaders anywhere who are sufficiently enlightened, trusting, and service minded to promote such measures as the proposals outlined above? Are there communities anywhere that are ready to pull together and take control of their own collective credit and demonstrate that they can use this power responsibly to serve the common good? Can we humans use the present crisis as an opportunity to make a successful transition to a higher, more harmonious and equitable level of civilization, or will we descend into a "dark age" of dissension and destruction?

These questions remain open but I believe that the key to our future lies in how we structure money and the mechanisms we use to relate to one another in the material realm. I conclude with these words from E. C. Riegel written more than sixty years ago:

> *It is a remarkable fact that no constitution of any state, nor any declaration of human rights, has ever proclaimed the right of freedom of money issue. Yet this right is inseparable from the right of bargain or exchange, which is the very foundation of liberty. Man's ignorance of the laws of money has blinded him to the very touchstone of freedom, without which the state cannot be curbed or his own capacity for progress and prosperity facilitated. We stand now at the dawn of a new approach to the ages old problem of human emancipation from superstition, with prospect of a tremendous lift to the spirit of conquest over the forces of darkness and depression*[9].

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[1] For a complete explanation of interest and the debt/growth imperative, see my book, *The End of Money and the Future of Civilization*, especially Chapters 6, 9, and 11.

[2] The effectiveness of this approach has been amply demonstrated by the work of such innovators as Carolyn Lukensmeyer (America Speaks: http://www.americaspeaks.org/), Jim Rough (The Center for Wise Democracy: http://www.wisedemocracy.org/), Tom Atlee (The Co-intelligence Institute: http://www.co-intelligence.org/), and Richard K. Moore (*Escaping the Matrix: how We the People can change the world.* <http://EscapingTheMatrix.org>).

[3] For a fuller explanation of the credit commons, see my chapter, "Reclaiming the Credit Commons". In Bollier, David and Silke Helfrich (eds.) *The Wealth of the Commons: A world beyond market & state.* (Amherst, MA: Levellers Press): 230-235. Also available at <http://bit.ly/19FYLwe>.

[4] WIR, an abbreviation for "Wirtschaftsring-Genossenschaft" is the German word for "we."

[5] I favor the use of a "market basket" of basic commodities as a value standard that can be used as the basis for defining a universal accounting unit or pricing unit. I have described how this can be done in my various books. You can learn about it at <http://bit.ly/18NxubK>.

[6] These proposals are inspired by, and draw heavily upon, *The Four Law Drafts* that were proposed by Dr Gustav Ramin, Heinrich Rittershausen, Dr Munzer, Ulrich von Beckerath, Hans Meis, Walter Unger, and Dr Walter Zander for implementation in Germany in 1932.

[7] Given the financial turmoil as I write this and the likely deep recession into which the global economy seems to be headed, many readers may object to the imposition of such severe restrictions on the central government's fiscal policy options, specifically the option for deficit spending to counteract deflationary pressures in the downside of business cycle. That "cure" is part of the Keynesian orthodoxy that has been sold to both academics and lay people over the past two or three generations. I hope that I have succeeded here in showing that it is the system itself that creates such pressures and that when these restructuring prescriptions are adopted in their entirety, they will greatly ameliorate and even, I believe, eliminate the problem of the business cycle. This is because productive resources of capital and labor never have reason to stand idle, since artificial restrictions on the credit needed by the productive sector to enter the market and to have their products exchanged will have been removed, in which case the "need" for Keynesian deficit spending ceases to be relevant.

[8] Beckerath, Ulrich von, *Does the Provision of Employment Necessitate Money Expenditure*. Reprint taken from Peace Plans #10, compiled by John Zube and available at, http://www.reinventingmoney.com/documents/full-employment.html. For more about the Rentenmark, see the Wikipedia entry, *Hyperinflation in the Weimar Republic* at <http://bit.ly/11IrFnv>.

[9] Riegel, E. C., *The New Approach to Freedom*, p. xiii. Available at <http://bit.ly/11hDdSg>.