

Imagining Diversity: Moving from Monopoly Money to a Multi-Layer Currency World

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1. Of Suffocation and War

The central cause of the Eurozone crisis is the insistence on a single currency and hence a single interest rate across 17 highly diverse national economies, themselves made up of very diverse regional and local economies. Such a proposal was always opposed vigorously by economists--mostly of the right but also of the left--whose theory told them that there are very strict conditions under which a currency area can operate and that these were very far from being met by the European union and its member states. The argument was that the Eurozone project was always a political project, aiming to put unendurable pressure on countries, some of which were reluctant to relinquish sovereignty, to become part of a single political unit. Tie them into an unbreakable currency union, so ran the thinking, and the ensuing crises would force political union, making it eventually the lesser of two evils. This is the situation we have reached now, the last battle between the political unifiers and their unwilling citizens.

Yet underlying this is a more sinister and more elusive plan. If we observe who is benefitting from the current crisis it is not the democratic politicians. Rather it is the owners of capital and those who serve them. According to Richard Werner the decision about whether to resolve the Euro crisis lies in the hands of the monetary authorities. [Just](#) as in the pre-war German crisis, in the end the politicians decide that they can create and support money that resolves the morass of debt. With the attacks on working conditions, falling wage rates, the erosion of the assets of the poor and the inflation in the value of assets of the wealthy, the financial crisis has given the owner of capital an unprecedented opportunity to extend their power at the expense of citizens, whether workers or pensioners.

The immediate threats from such policies are apparent: the public services our mothers and grandmothers fought for are being dismantled while 19th-century working [conditions](#) including child labour are being seriously discussed. But the solution to the crisis threatens even more dangerous consequences in the future. As German economist Hans-Werner Sinn has [pointed](#) out, we are creating a situation where the northern European countries will become the creditors of the southern European countries. Germany's young people will be obliged to seek 21st-century reparations from their southern European neighbours, with all the national hostility that is likely to evoke. The very same pattern that led to the Second World War (then as a result of the Gold Standard strait-jacket) are being recreated as a result of the single currency (this first round of this catastrophe is detailed in Polanyi's *The Great Transformation*, published in 1944).

It is the stranglehold of the single currency that is generating this socially and politically dangerous pressure. This leads us to the obvious answer: loosen the straitjacket and allow the patient to breathe. This can be achieved by abandoning the idea of a single currency, but going further than these to argue that a sustainable and just economy needs a diversity of currencies for different purposes. In the remainder of this paper I will address three levels, from the bottom up. First, I will explore the role that local currencies can play in reviving the local economies that once met the majority of our needs but have been asphyxiated by the process of globalisation. Secondly, I will consider what it means to have a national currency, and why the Euro can never provide a substitute for a country's own currency. The proposal here is that, rather than abandoning the Euro, we use it as a

common rather than single currency. In the final section I consider the final role that we need a currency to play in a complex global economy: to facilitate transactions between nations. Here I suggest that we took a seriously wrong turning at Bretton Woods and explore options for a global currency that could ensure justice as well as sustainability.

1. Making our own Money

At its most basic, money is there to enable exchange. The early Australian settlers had inadequate supplies of cash and so wrote each other IOUs, which they signed and passed around. When money is scarce communities continue to create their own. In the US in the Great Depression states created self-financing scrip money. The face value of these notes was \$1 and a stamp to the value of 2% of the face value had to be added every week. By the end of the year the note had paid for itself, plus a 4% tax that went to the state officials. In Argentina, money was made more democratically, by communities themselves in the form of *trueque* or barter money. The centralisation of money during the 20th century left us disempowered but it also left us vulnerable because, as we have seen, when the centralised currencies fail, the whole economy can grind to a halt.

Just as in previous economic crises, since 2008 we have seen a mushrooming in the number of community currencies. As I have described elsewhere, these have variety of different designs, provenances and functions; what they share is the intention of lubricating economic activity, the key function we should demand of this type of currency.¹ In contrast, the national currencies issued with the authority of central banks are issued as debt by private banks. The objective of the bank is to make money and make profit, hence it directs that money in the direction of the most profitable activities in the short term, rather than in the direction of the most socially valuable activity. So in recent years we have seen the rise of high-frequency finance where bets are placed for milli-seconds but we cannot find enough money to insulate old people's home to stop them dying of cold and reduce CO2 emissions. As banks have focused on speculative activities the productive economy has withered. No amount of initiatives on the level of the recently announced Public Investment Bank can address this issue: only taking away the right to create money from profit-driven, shareholder-owned banks will work.

Until this fundamental political demand is conceded we must continue to simply transcend the banks, as people across the world are increasingly doing already. I will give three brief examples of how this is happening in terms of three roles that money plays in the real economy: in facilitating small-scale exchange between producers; in enabling exchange between businesses; and in enabling the mediation of cash between savers and borrowers.

What do you do when you want to work and you have produce to sell but because of decisions being taken thousands of miles away shops are closing, businesses going bankrupt, and you cannot get your hands on any money? As we already saw, when this happened in Argentina in 2001 people responded with a creative flourish by generating a staggering range of alternative payment systems (these are described more fully by [myself](#) and by Pete [North](#)). Something similar is happening today in Greece and in Spain. The currency of this type that is grabbing the headlines is the Tem, which is now [operating](#) successfully in the small Greek town of Volos. The [TEM](#) (an acronym from the initials of the Greek phrase 'local alternative unit') is a typical example of a community or complementary currency, circulating within a defined local economy. This system, like

¹ You can find out much, much more on the [website](#) of the *International Journal of Community Currency Research*.

many LETS schemes in the UK today is run entirely electronically. It has provided a lifeline to many Greeks for whom the Euro is now unattainable.

Smaller businesses are often willing to accept these community currencies, and can in fact play an important role in stabilising and building credibility into them. In Argentina, following the rapid expansion of these currencies, local authorities saw an opportunity and many issued their own currencies that became known as *patacones*. This enabled them to gain the seigniorage (the face value of the money minus the cost of producing it), since they could spend this money directly into circulation and people would accept it because of the political authority behind it. This enabled local councils to continue to run services and pay their employees in spite of the implosion of the national economy. Elsewhere I have argued that local councils in the UK should consider issuing their own currencies now to facilitate local economic activity. As a minimum they could accept their local community currency for payment of business rates (as Bristol City Council is [doing](#)) or for council tax.

The most obvious impact of the credit crisis for businesses is their inability to raise credit for investment. Banks are sucking in money to deal with their bad debts and a series of attempts to persuade them to lend in the UK have failed. When they do lend they charge unjustifiable rates of interest, with a huge margin between what they pay savers and what they charge borrowers. A response to this at the local level is to create an investment vehicle called a local bond. The renewable energy company Ecotricity issued such a bond recently with great [success](#). Its EcoBonds were launched in October 2010 to secure up to £10 million of funding to help advance the rate at which it can build its new Green Energy projects, principally wind and sun farms. The bond issue was over-subscribed by 50% and the company raised more than £15m. from the four-year bonds. While this is on a large scale, small businesses can also raise money for small expansions, as has been the case in my local town where I can invest in a small array of solar panels (£30k) or the expansion of a local brewery (£15k).

Beyond the local level, peer-to-peer lending is also growing rapidly. Businesses or individuals can borrow in this way; they give details of their need for the money and their ability to repay on the website, and those with spare cash to invest do so online. The best-known of such online system is Zopa, which has facilitated the borrowing of more than £200m since it was founded in 2005. The business equivalent is Funding Circle, which [lends](#) around £1m. per week. This is a more anonymous form of lending, where risks are controlled through the very small scale of deposits to any one borrower rather than through local knowledge of their likelihood of success.

These are solutions to the equity generation and investment functions that banks used to provide for businesses. The third important function is enabling banks to settle their balances with each other, a function for which some businesses are now using [Bartercard](#). This is a network of business who, rather than paying each other via banks, are keeping running balances of the goods and services they exchange and then only settling the balance on a monthly basis. There is remarkably little independent research into this business, which was founded in Australia in 2007 and charges a high percentage of trades as a transaction charge, but the model is certainly one that would massive reduce the business function of banks in a complex economy.

All these examples show the creativity of people in responding to the failure of the credit system, and they also make clear how the banks have made themselves obsolete through their focus on profit rather than lending for investment. Although these local solutions are vital and impressive they are not the whole answer, because the control of our national

credit system through private banks provides the ideological justification for the austerity that is blighting our societies. It needs to be understood and challenged.

2. Life, Death and Taxes

So much for the private function of money, its role in the world of goods and services. While many people think of this as the primary function of money, the reality is that money was created originally by public authorities, whether monarchs or states, to enable them to manage their realms. Initially this largely meant the gathering of taxes to fund warfare, but more recently it has meant the business of fiscal management for investing in the public services that we take for granted as part of living in a civilised and sophisticated societies. It is here that the Eurozone has hit hardest because the most significant political development that occurred when Europe's nations embarked on the great currency experiment in 1999, although this was shockingly under-discussed, was the abnegation of the right to issue their own currency.

The right to issue currency is, along with the monopoly on the legitimate use of violence, the key right that the state claims for itself as its side of the social contract. We accept our duty to follow laws and pay taxes and we allow to the state the right to be the sole controller of what is defined as 'legal tender', a right that was taken away from local banks in the UK [Bank Charter Act](#) of 1844. Legal tender is a special sort of money, because when you use it as part of an implicit contract the state will support that contract with legal and punitive systems, hence giving the currency supreme credibility.

But even more importantly, the state also accepts this currency for the payment of taxes. This leads to the question of whether a type of money that is appropriate for the transacting of goods and services at the local level, as discussed in the previous section, will have different qualities and need to be designed differently from the currency that is used as the medium of exchange of the state itself. I would argue not. I would suggest that the withdrawal of value in the form of taxation from local economies is part of the explanation for their failure to thrive. Rather the state should issue a form of specifically fiscal money, by which I mean money that it accepts in taxes and pays to its employees. This money would rarely if ever exist in paper form but would be accepted by financial institutions and for other large-scale payments such as for housing. It would also be the main form of money in which banks conducted their business of lending and managing savings and investment, but it would not be controlled by the banks.

Of course this is all somewhat theoretical, since for many years most states have privatised the money creation function and, through the issuing of banking licences, has given a very peculiar form of institution, the bank, the power to issue money on behalf of the state. This is perhaps why the implications of abandoning the drachma or the peseta were not apparent to either politicians or citizens in the run-up to the launch of the Euro. Since it felt as though banks made money, the loss of fiscal control had become somewhat blurred. The role of the state in supporting the credit issued through the banks became painfully clear, of course, after the 2007/8 crisis, when the banks immediately appealed to the central banking authorities *in the individual states* to back up their unsustainable debts.

This suggests a simple solution to the agony of the Greek financial crisis: the Greek state should reclaim the power to make money. Greeks would still be able to spend Euros, and the tourism industry, for example, might continue to accept them. But the Greek government would initiate a new currency for the purposes of running its national economy (I would suggest that they not call it the Drachma). Governments need a currency in which

they accept taxes, and they need to have control over this currency, Greece could issue Obols² to pay the salaries of public-sector workers, and accept the same for payment of taxes. This would immediately liberate the country from the death spiral it is currently enduring. Traders would prefer to have Euros, but a currency which you can use to pay your taxes always has an intrinsic value and would be accepted *faute de mieux*.

During the early debates about the Euro, green and radical economists [argued](#) for a common currency rather than a single currency. This should continue to be our proposal now. A common currency would offer all the advantages to citizens and businesses that we were offered to lure us into the euro. Prices could be set uniformly in the currency and we would not need to keep swapping from one currency to another on our summer holidays. It would also enable the pro-federalist ideologues to back down from their position about an unbreakable union without losing face. Those who always intended the single currency to be used to exert downward pressure on wages and changes the balance of power between capital and labour will not be happy with this proposal but they are a minority interest and their 1% of votes should not be allowed to outweigh the interests of the 99%. But it will also leave us with another issue that needs to be urgently addressed, and which the Euro was partly designed to respond to: the uncontrolled power of the dollar as the international currency.

3. Fair Trade or Currency Imperialism

At this level we need a currency to fulfil two basic functions which we can think of as collateral and settlement. If we start with settlement, thinking back to Bartercard can help to explain what this means. At the end of the month the local stationer, cafe, taxi company, baker and so on, can balance out what they have each spent with the other and find a figure that is owed in one direction or the other, which is then paid or settled. In a similar way, although on a different scale, companies trading across national boundaries settle their balances at the end of the year and they need a currency in which to settle them. Collateral is more like a financial guarantee and applies to currency exchanges as well as trade balances. Countries hold currency balances to give other countries the confidence to sell them their currency, or trade with their companies.

World Foreign Exchange Holdings, 2012 1st Quarter

Currency	Holding (US\$m)	%
US dollars	3,548,200	62.2
Pounds sterling	228,439	4.00
Japanese yen	202,725	3.55
Swiss francs	6,889	0.12
Euros	1,422,927	24.9
Others	294,914	5.17

Clearly the question of which currency is held as reserves or used for settlement is crucial, because the country whose currency is used gains the seigniorage value associated with creating that currency. At present five currencies are trusted to perform this function and referred to as 'reserve currencies': the US dollar, the Japanese Yen, the Euro, the British pound, and the Swiss franc. The proportions of the different currencies held by a range of central banks is given in the table which illustrates the dominant role of the dollar, even in

² The obol was a kind of silver coin used in ancient Greece; the name is entirely arbitrary.

the fact that the values are listed in terms of millions of dollars.³ It is this that has enabled the US to run a massive trade deficit and consume goods and energy on a socially and ecologically destructive scale since the end of the Second World War.

To some extent the Euro was created to challenge this power of the dollar. Rather than returning to the negotiating table and arguing that the Bretton Woods settlement had failed, European financiers decided to play hard ball and create a currency on the same model and powerful enough to compete. The history of the way different powers have struggled to maintain the hegemonic power associated with controlling the dominant currency since the rise of capitalism is [told](#) by Ramón Fernández Durán and there is a brief summary in my [article](#) 'Currency Colonialism'. Back at Bretton Woods Keynes argued that what was needed was a form of bank money, the 'Bancor', that all the leading economies would jointly support and use. I have described [elsewhere](#) the negotiations and the reasons why Keynes's proposal was not accepted. Harry Dexter White's success in ensuring that the dollar would become accepted instead of gold allowed the US to run an infinite trade deficit with the rest of world, but also crippled its own economy.

In my [paper](#) I argue that if we take the issue of climate change seriously then the global economy is suffering from two shortages at present: of money and of energy. We could, as Richard Douthwaite [suggested](#), find a means of limiting the amount of money in circulation so that it represented the amount of CO2 that could be produced annually without threatening our climate. While this is a complex idea and not yet a fully developed proposal, the idea of backing the neutral trading currency with carbon rather than gold is an attractive one.

This discussion begs the question of whether *international* financial transactions still have a place in a world that is globalised and where much of the settlement function of an international currency takes place within the boundary of a transnational corporation. I would argue that it absolutely does. The footloose nature of international capital has led to many problems, not the least of which is the ability of companies to avoid paying a proper share of taxes. So pinning companies down to national territories, with attached political responsibilities mediated through democratically elected governments, is crucial to rebalancing the power of capital and labour in the global economy. Having a functional and neutral global currency is a necessary, although a far from sufficient, condition for tackling the anti-democratic activities of these transnational corporations.

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³ The same [IMF](#) data is presented graphically on Wikipedia [here](#). The graphic shows that 90% of foreign reserves are held in the dollar and euro, with the dollar accounting for over 60%.