

If the state can't save us, we need a licence to print our own money

It bypasses greedy banks. It recharges local economies. It's time to think seriously about an alternative currency



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In Russell Hoban's novel *Riddley Walker*, the descendants of nuclear holocaust survivors seek amid the rubble the key to recovering their lost civilisation. They end up believing that the answer is to re-invent the atom bomb. I was reminded of this when I read the government's new plans to save us from the credit crunch. It intends - at gobsmacking public expense - to persuade the banks to start lending again, at levels similar to those of 2007. Isn't this what caused the problem in the first place? Are insane levels of lending really the solution to a crisis caused by insane levels of lending?

Yes, I know that without money there's no business, and without business there are no jobs. I also know that most of the money in circulation is issued, through fractional reserve banking, in the form of debt. This means that you can't solve one problem (a lack of money) without causing another (a mountain of debt). There must be a better way than this.

This isn't my subject and I am venturing way beyond my pay grade. But I want to introduce you to another way of negotiating a credit crunch, which requires no moral hazard, no hair of the dog and no public spending. I'm relying, in explaining it, on the former currency trader and central banker Bernard Lietaer.

In his book *The Future of Money*, Lietaer points out - as the government did yesterday - that in situations like ours everything grinds to a halt for want of money. But he also explains that there is no reason why this money should take the form of sterling or be issued by the banks. Money consists only of "an agreement within a community to use something as a medium of exchange". The medium of exchange could be anything, as long as everyone who uses it trusts that everyone else will recognise its value. During the Great Depression, businesses in the United States issued rabbit tails, seashells and wooden discs as currency, as well as all manner of papers and metal tokens. In 1971, Jaime Lerner, the mayor of Curitiba in Brazil, kick-started the economy of the city and solved two major social problems by issuing currency in the form of bus tokens. People

earned them by picking and sorting litter: thus cleaning the streets and acquiring the means to commute to work. Schemes like this helped Curitiba become one of the most prosperous cities in Brazil.

But the projects that have proved most effective were those inspired by the German economist Silvio Gessell, who became finance minister in Gustav Landauer's doomed Bavarian republic. He proposed that communities seeking to rescue themselves from economic collapse should issue their own currency. To discourage people from hoarding it, they should impose a fee (called demurrage), which has the same effect as negative interest. The back of each banknote would contain 12 boxes. For the note to remain valid, the owner had to buy a stamp every month and stick it in one of the boxes. It would be withdrawn from circulation after a year. Money of this kind is called stamp scrip: a privately issued currency that becomes less valuable the longer you hold on to it.

One of the first places to experiment with this scheme was the small German town of Schwanenkirchen. In 1923, hyperinflation had caused a credit crunch of a different kind. A Dr Hebecker, owner of a coalmine in Schwanenkirchen, told his workers that if they wouldn't accept the coal-backed stamp scrip he had invented - the Wara - he would have to close the mine. He promised to exchange it, in the first instance, for food. The scheme immediately took off. It saved both the mine and the town. It was soon adopted by 2,000 corporations across Germany. But in 1931, under pressure from the central bank, the ministry of finance closed the project down, with catastrophic consequences for the communities that had come to depend on it. Lietaer points out that the only remaining option for the German economy was ruthless centralised economic planning. Would Hitler have come to power if the Wara and similar schemes had been allowed to survive?

The Austrian town of Wörgl also tried out Gessell's idea, in 1932. Like most communities in Europe at the time, it suffered from mass unemployment and a shortage of money for public works. Instead of spending the town's meagre funds on new works, the mayor put them on deposit as a guarantee for the stamp scrip he issued. By paying workers in the new currency, he paved the streets, restored the water system and built a bridge, new houses and a ski jump. Because they would soon lose their value, Wörgl's own schillings circulated much faster than the official money, with the result that each unit of currency generated 12 to 14 times more employment. Scores of other towns sought to copy the scheme, at which point - in 1933 - the central bank stamped it out. Wörgl's workers were thrown out of work again.

Similar projects took off at the same time in dozens of countries. Almost all of them were closed down (just one, Switzerland's WIR system, still exists) as the central banks

panicked about losing their monopoly over the control of money. Roosevelt prohibited complementary currencies by executive decree, though they might have offered a faster, cheaper and more effective means of pulling the US out of the Depression than his New Deal.

No one is suggesting that we replace official currencies with local scrip: this is a complementary system, not an alternative. Nor does Lietaer propose this as a solution to all economic ills. But even before you consider how it could be improved through modern information technology, several features of Gessell's system grab your attention. We need not wait for the government or the central bank to save us: we can set this system up ourselves. It costs taxpayers nothing. It bypasses the greedy banks. It recharges local economies and gives local businesses an advantage over multinationals. It can be tailored to the needs of the community. It does not require - as Eddie George, the former governor of the Bank of England, insisted - that one part of the country be squeezed so that another can prosper.

Perhaps most importantly, a demurrage system reverses the ecological problem of discount rates. If you have to pay to keep your money, the later you receive your income, the more valuable it will be. So it makes economic sense, under this system, to invest long term. As resources in the ground are a better store of value than money in the bank, the system encourages their conservation.

I make no claim to expertise. I'm not qualified to identify the flaws in this scheme, nor am I confident that I have made the best case for it. All I ask is that, if you haven't come across it before, you don't dismiss it before learning more. As we confront the failure of the government's first bailout and the astonishing costs of the second, isn't it time we considered the alternatives?

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