

# Alternatives to Current Monetary System

*"It is well that the people of the nation do not understand our banking and monetary system, for if they did, I believe there would be a revolution before tomorrow morning."* – Henry Ford

## Guiding principles

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- Inclusive/democratic
- Moral
- Sustainable
- As small scale as possible, but as large scale as needed

## Alternatives

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### 1. Local currencies

Example: Berkshares, Ithaca HOURS

Money printed and circulated within, and accepted by people within a designated community. Money with boundaries that communities can control.

*"Money is like an iron ring we've put through our noses. We've forgotten that we designed it, and it's now leading us around. I think it's time to figure out where we want to go -- in my opinion toward sustainability and community -- and then design a money system that gets us there."*

- Bernard Lietaer in *Beyond Greed and Scarcity*

#### **Advantages**

- Facilitates transactions between individuals and businesses that are rich in goods and services rich but dollar poor.
- Constantly circulating – not hoarded, gaining interest, or speculated.
- Backed by goods and services offered by participating individuals and businesses.
- Can be used in combination with barter and/or private Federal Reserve Notes.
- Often only accepted by local businesses – thus a means to support local jobs and businesses.
- Builds or reinforces community pride and identity, as notes can honor local people, natural attractions, historical events, etc.

#### **Concerns**

- Tied to existing national currencies
- Doesn't address or challenge problems of current privatization/corporatization of money system, including corporate creation of money, fractional reserve banking, etc.
- Example of turning inward – focusing on micro solution while ignoring macro macro system

### 2. Local mutual credit system

Examples: Rethinking our money system (Paul Krumm)

*"Money is created each time there is a financial transaction, with a debit entry in the buyer's account, and a credit in the seller's account. There is no need for central control of the money supply, as the money supply is self regulated by trades being made. Self regulation is much more immune to manipulation than central control, and automatically reflects the money supply needs of users. The money supply is free to increase or decrease according to need. Community members are much more effective in deciding what their needs are, and how to maintain solvency and economic balance than are profit oriented banks."* - Paul Krumm

#### **Advantages**

- Promotes maintenance of balances close to zero, not always keeping a positive balance.
- Locally based.
- Independent, non-profit organization separate from government / non profit
- Democratically controlled
- Value of money is based on hour of work
- Ability to trade between communities, not simply within communities, through establishment of regional, national and international "clearing houses"

#### **Concerns**

- No specific plan
- Doesn't address or challenge problems of current corporatization of money system
- Example of turning inward – focusing on micro solution while ignoring macro system

### 3. Return to Gold Standard

Money backed by gold and, possibly, silver or some other finite precious metal

"*Gold is Money. Everything Else is Credit.*" -- J.P. Morgan

#### **Advantages**

- Perception that money system will become stable or solid.
- No inflation – can't print money out of thin air

#### **Concerns**

- No ability to expand the money supply to meet expanding population or economic needs
- Fixes "value" of money only at the value of a single commodity
- Only way to create more money is to mine more gold – exploitation of natural world
- Country may have less gold than they think.

### 4. Democratic Monetary System

Public issuance and circulation of money at federal level.

Example: National Emergency Employment Defense (NEED) Act – HR 2990 in last Congress.

*"If our nation can issue a dollar bond, it can issue a dollar bill. The element that makes the bond good makes the bill good... If the Government issues bonds, the brokers will sell them. The bonds will be negotiable; they will be considered as gilt edged paper. Why? Because the government is behind them, but who is behind the Government? The people. Therefore it is the people who constitute the basis of Government credit. Why then cannot the people have the benefit of their own gilt-edged credit by receiving non-interest bearing currency... instead of the bankers receiving the benefit of the people's credit in interest-bearing bonds?"* -Thomas Edison

#### **Advantages**

- Proposes what most people believe already exists: (a) making the Federal Reserve public, (b) limiting bank lending to existing deposits and (c) creating US money
- Creates millions of well-paying private sector jobs and rebuild America's infrastructure without borrowing, raising taxes or shifting existing spending (ie robbing Peter to pay Paul)
- Pays off the national debt as it comes due
- Reduces federal deficits or even eliminate them
- Ends the fiscal crisis at Federal, State and local levels
- Makes the U.S. dollar a stable currency which maintains its purchasing power over time

What it does

- Puts the Federal Reserve (Fed) into the Treasury to make our monetary policy truly accountable to the Congress and the American people
- Ends the banks special privilege by no longer allowing them to create our money supply when they make loans, through a simple and non-disruptive accounting change
- Invests money to renew our crumbling **infrastructure**, making it fit for the 21<sup>st</sup> Century;

How it works

- The conflict of interest between private ownership of the 12 Federal Reserve (Fed) banks and management of our nation's monetary policy is ended by incorporating the Fed into the Treasury. The Fed is put on a budget and made accountable to the American people.
- A separate Monetary Authority (part of Treasury) made up of experts is made responsible for managing monetary policy. Its governing principle is to ensure that the money supply is sufficient to meet the demand in the economy, and is **not inflationary or deflationary** (i.e., the purchasing power of our money remains stable).
- Banks continue to make profits by lending money that savers and investors make available to them for that purpose. Banks may also borrow from the Treasury.
- The Monetary Authority advises Treasury how much money is needed in the economy. Treasury advises Congress how much recycled/ new money is required to pay off debt (as it comes due) and supplement existing revenues to fund infrastructure renewal, grants and loans to State and local governments, education and other priorities, as Congress approves.
- Congress uses its Constitutional power to issue money to pay off debt and fund needed functions.

#### **Concerns**

- Federal system too large, bureaucratic, unaccountable to public
- Monetary Authority unaccountable to public
- Congress will authorize more money than necessary, fueling inflation