

Creating Honest, Debt-Free Money Locally

by Dan Sullivan

The ultimate solution is for each sovereign nation to create its own currency and either spend that currency directly into circulation or give it on a per capita basis. As long as banks enjoy the privilege of creating legal tender out of thin air and lending it into circulation, the most basic injustices will continue. We therefore applaud efforts to reform national currencies by the American Monetary Institute in the United States, and Positive Money in the United Kingdom, and consider their proposals ethically and economically sound. However, given the grip of banking interests on the national governments of large countries, we are not confident national reform will prevail in the near future. We therefore advocate pushing these reforms in smaller countries and promoting alternative currencies based on the same principles within large countries.

A debt-free local currency can give an edge to the local economy by increasing the ratio of money to debt. If issued properly, it can serve as an example of the right way to issue currency, and can put pressure on government to reform its issuance in the same direction. It can also increase local land values and be indirectly profitable to real estate interests who issue the currency.

Shortcomings of Other Alternative Currencies

Most alternative currencies are still debt currencies, even if the debts are only “debts of honor.” That is, the issuers expect, but cannot legally obligate, people to whom the currency is issued to accept the currency when presented by others. The only backing of currencies is the moral obligation on the people to whom they are issued, rather than an obligation on the issuers. The recipients of new currency could die, move away, become incapacitated, go bankrupt, or just lose interest in making good on their promises. This causes the currencies to lose value and ultimately fail, even if they produce good results for a while.

In some cases, issuers sell their local currencies at a discount, and participating merchants then offer discounts to people using the currencies. From that point on, the currency will continue to circulate, mostly among the merchants, at least as long as these merchants keep offering discounts. This is probably an improvement, but the currency still has nobody obligated to accept it, and is never actually redeemed. If it falls out of favor, the currency becomes worthless and those holding it lose out.

Other alternative currencies have been backed by warehouse receipts for commodities, particularly precious metals. The expense of holding enough of the commodity to redeem the currency is a detriment to the currency's viability, and holding only a fraction of the commodity promised is fraudulent. Indeed, the issuer of one such currency, popular with gold bugs, was convicted of issuing more receipts than he could redeem with the gold he had.

It is possible to back an alternative currency with products that are not merely held in storage, but are constantly manufactured and sold. People have argued that Canada Tire Dollars are such a currency. Canada Tire sells a wide variety of products, much like Sears Roebuck in the United States. They issue their "Dollars" to their own customers to promote return sales. The customers can certainly trade the dollars as currency, but very few people do. The problem with such commodity dollars functioning as a stable currency is that the dollars lose value if the issuer increases his prices, starts making inferior products, goes out of business, or even closes the stores in a particular community where the dollars were circulating.

The Ideal Currency



The ideal currency is either spent or given into circulation, and obligates nobody but the issuers. It is backed, not by a stock, but by a flow or revenue stream. The revenue stream must not depend on effort by the issuer, or issuers, but must come of its own accord. While there can be a limit on how much the issuer can redeem at a particular time, there is no limit to how much can be redeemed over time. It must be in the interest of the issuer to make the currency as stable and reliable as possible.

Just as government enjoys a constant flow of taxes, land trusts, large landlords, and consortia of landlords enjoy constant flows of rent. The land can be encumbered or liened, so the landlord would have to either redeem all his credits or restrict the next purchaser to contracting with the consortium or trust. Alternative currencies issued by such landlords would be superior to any of the currencies listed above. The long-term

interests of the landlords would not be to maximize revenue from the currency, but to maximize rents.

The issuers would distribute the currencies in ways that attract ideal tenants and indirectly raise rents. For example, a shopping center could rebate some or all of the sales taxes that their tenants have to pay. The tenants, in turn, would rebate sales taxes their customers pay. This gives customers an incentive to patronize the shopping center, and gives tenants, especially high-volume tenants, an incentive to offer higher rents. Meanwhile, large residential landlords could rebate portions of their tenants' payroll taxes. This would attract working tenants who in turn would make the apartment complexes more desirable.

It is important to involve both commercial and residential landlords. This gives residential tenants an incentive to shop at the center that rebates sales taxes, and gives merchants at that center an incentive to hire people who reside in the apartment complexes that rebate payroll taxes. Customers can also buy additional credits from merchants who have accumulated them, and some merchants will want to sell the credits to them in order to get their repeat business. Some will even offer discounts to customers using rebate credits. As long as rebate credits continue to circulate between residents and merchants, landlords do not actually lose rent revenue.

The currency value automatically self-regulates. If too much currency is issued for the demand, people will stop circulating it and redeem it by paying rents with it. If too little is issued, people will avoid giving up the currency for rents, and will keep circulating it. There should be rules to prevent issuing credits for any reason other than the rebates and bringing more rent-bearing land into the system, and an agency representing holders of the existing currency should have standing to either enforce this prohibition or allow exceptions.

The currency could be in the form of paper or electronic credits. The value of the currency could be indexed to a constant dollar value and adjusted each month when an official consumer price index is published (as in the United States). This is cumbersome for paper currency, but easy for debit cards, which can simply be credited with the value that the official currency has lost.

State and local governments are prohibited from issuing such a currency, at least in the United States, but we believe they can accept such a currency for taxes, provided that they can use the currency to pay their expenses. While they cannot pay employees with an alternative currency, they can pay contractors with it, and employees can voluntarily purchase credits with their paychecks. To encourage this, the issuers of the

currency can offer to pay taxes before they are due. This helps the local government reduce its debts.

Local rent-based currencies can function on their own, but they are particularly effective in conjunction with land trust communities that address the problems of idle land speculation. We also advocate creating for-profit land trust communities that pay the taxes of their tenants. This currency system is a natural complement to such land trusts.