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What if the Irish, Baltics, Spaniards, Greeks did this: a high-tech parallel monetary system for the underdogs?

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Abstract

Advances in information technology now make it possible for non-government entities to establish and run a national parallel paperless monetary system at very low cost and without the need for long-lasting preparations. The workings of such a system is described and discussed. Such systems may ameliorate the dire state of affairs in the hardest hit Eurozone countries, and also increase the political pressure on EU and national elites for full employment and reduction of cutbacks.

“Worldly wisdom teaches that it is better for the reputation to fail conventionally than to succeed unconventionally”

- John Maynard Keynes

This is an attempt to think outside the box, because any sorts of thinking inside the box on Greece, Ireland and other countries in similar situations has not led to anything and will not either. (But if the reader knows about some unconventional proposal that I may have overlooked, please point me to it!)

The proposal

An alliance of large grass roots organisation (typically: unions) sets up a cooperative bank-like operation ("BLO"). Probably it should formally be an association requiring membership to participate (more on this below). This BLO issues "value points" (an arbitrarily chosen term, from now on abbreviated "VP's" -- it could be called "units", "work units", "credits", "coupons", whatever -- but should for legal reasons not be called "money"). Technically, the BLO is just a national office with computer capacity and a few employees. There are no branches. A member gets a VP "account" with the BLO. To use the account the member

needs a mobile phone subscription. When opening an account, (s)he is automatically offered credit up to a standard amount of VP's from the BLO. Such a "start loan" has the purpose of enabling the person to start transacting with others. It is primarily meant as a medium of exchange, and not as a store of value. It is interest-free, but there is a very small membership fee per account, which is only to cover the expenses of the BLO office and computer/network costs. This fee must be paid in Euros/regular money. The VP loan has limited duration, a few months. When the loan expires, the borrower has the right to an automatically renewed loan, but the maximum amount allowed may have been adjusted somewhat up or down in relation to the last loan received. More on this below.

Technological progress makes this possible

What is to be proposed here is a national and extremely efficient version of a Local Exchange Trading System (LETS) or a local currency system¹. These are basically barter schemes but strongly improved by using a local medium of exchange. Members gain points by supplying goods or services to other members. Such points gained are in the next round used to buy goods or services from other participants. The big advantage is that this enables economic activities locally which would else not have taken place due to lack of a regular medium of exchange (i.e. money). A LETS system has traditionally been managed by some trusted person(s) keeping tally of everyone's points account, in modern times on a computer. This is done when reports of exchanges are received. Such a system is only manageable when it is confined to some local community. Another factor limiting the geographical and population scope of such schemes is that participants need to know which other agents (persons, firms) are also in the scheme, and what sort of services or goods they offer.

A local currency system does a similar job as a LETS scheme. In that case one has circulating paper currency resembling regular money, something that eliminates the need for account updates with each transaction, but which may be legally difficult to uphold due to the state's monopoly on money issuance.

A LETS-like scheme must do the following:

- account for transactions (or run a local monetary system)
- give participants an easy and fast way to find other participants in the system and what they offer (or demand).

Today, with most people having mobile phones, and also access to the Internet (whether at home, work or elsewhere), both challenges may be elegantly and cheaply met, and "the local

¹ Many LETS systems have been, or are, successful. The reader is referred to <http://en.wikipedia.org/wiki/LETS> which gives an introduction. One of most successful cases of the LETS-similar scheme of circulating a local currency, was the one in Wörgl in Austria, mentioned later in this paper. A reason for the scheme's success was that it implemented Silvio Gesell's (http://en.wikipedia.org/wiki/Silvio_Gesell) proposal of levying a fee on money held (i.e. a negative interest on liquids). This led to a very high speed of circulation. For more on this, see http://en.wikipedia.org/wiki/Local_currency, which also mentions the quite different, long-lived and still existing Swiss WIR, described here: <http://en.wikipedia.org/wiki/WIR>.

community" may be expanded to encompass a country (or state, like in the U.S.). Reporting of transactions is done via mobile phone/SMS and automatically received and accounted for on a server. And a web site data base (possibly on the same server), updated by participants and having a Google-like search system, will enable participants to advertise themselves or to easily find sellers and and buyers anywhere of the relevant goods or services.

Gradual increase in transactions

Mobile phone transactions with other BLO members may be implemented through one of the technically proven schemes already in operation in some developing countries. There are no physical/paper VP's in circulation. People and firms offering goods and services will gradually - as the scheme gets more popular - decide to accept a certain share of VP's as payment, while the rest must still be in Euros. Such a share is decided freely and individually by the seller, and may also be adjusted at any time with circumstances. The same holds for wages: employers and employees may as the scheme gets widely accepted, agree on a certain share of wages being paid in VP's, a share that may be re-negotiated as things develop.

Pure fiat money

The VP's are pure fiat money. They do not have any property giving it an intrinsic value like money issued by a central bank, which has indisputable value by being the sole currency that may be used to pay taxes (as per the "modern money" or "Chartalist" view). People or firms will therefore accept VP's in payment only if they believe that a sufficient amount of other people/firms will accept them. This outcome is probable however, since today's only alternative for the Irish (and other nations in a similar situation) of increasing hardship, unemployment and too low and further shrinking income in Euros over many years, is much worse.

Building confidence

Such a scheme has dynamics which may be unstable both ways: confidence building more confidence, or decreasing confidence leading to hyperinflation and collapse. One should ensure a basic and initial level of confidence by the BLO being launched and run by (a) large, national and well established organisation(s). Second, and most important, by controlling the amount of VP's in circulation, based on observing the average acceptance of VP's as a share of payment together with Euros, it should be possible to uphold the needed amount of confidence in the system. The amount in circulation may be limited by renewing loans with a lower amount when earlier loans expire. Then the borrower will have to accept a reduction of the amount in his/hers account. To avoid runaway inflation in VP's, one should probably start the process by issuing a restricted amount (see below), and then letting the aggregate amount grow (or in between shrink) based on the observed impact. Note that the existence of VP's only as electronic entities on a computer (no physical "currency"), combined with the fact that the initial issued loan has not in any way been "earned" by the account holder, allows the scheme to freely regulate the amount of VP's in circulation upwards or even downwards, by adjusting all accounts with the same amount. This is a new

and potent macroeconomic control instrument that is not available in a regular monetary system.

Why is membership necessary?

As already mentioned, the BLO should be organised as an association or "exchange club", requiring membership. Then the VP's are not a state-controlled medium of exchange like Euros, but a device only for club members to exchange goods and labour between them. Hopefully this will make it difficult for the state to ban such a system, like the Austrian state did in 1933 against the successful local currency in the town of Wörgl. Organising the scheme as an association with transactions only being available to members, and no money-like paper VP's in circulation, may prevent such an outcome. The state may also try the milder countermeasure of levying income tax in Euros on such activities, portraying them as "tax evasive" and constituting "a black economy". Such attempts must then be fought against politically and legally, in parallel with the ongoing other popular anti-crisis resistance activities. One may expect that such a scheme will be opposed not only by the state; it will probably also be derided by the economic establishment, including financial pages pundits. But criticism in itself is not a fundamental obstacle. The bigger danger is whether the scheme may simply be banned, or quashed via Euro taxation.

There is a further good argument for membership requirement: One should avoid giving the well-to-do a free lunch in the form of an automatic BLO loan, on top of the ample buying power they possess in Euros. They should as a rule only be allowed to open an account, but not have access to an automatically given and renewed VP loan. The BLO should be targeted towards the less well-off in society. This may be achieved by having two grades of membership. Level 1 is open to all (including firms): you get an account but no initial loan. Level 2 (call it "core" membership) additionally qualifies for the loan. Core membership should only be given to people already belonging to one or more of the organisations behind the BLO (unions and similar popular organisations, for instance farmers'), to pensioners and to the unemployed. And it should be automatically given, to give the scheme a flying start.

One could modify the rules somewhat by allowing level 2 membership for persons that do not initially qualify, but who are recommended by a core member. But it is probably wise to start the process carefully by only giving automatic loans to core members, and later relax the rules in a controlled manner, based on how things develop. Account holders that default on their loans above some defined level of transgression may be excluded as members of the system, and their accounts discontinued.

Credit above the automatic amount?

In an initial period, the system should be simple and only have the purpose of enabling transactions between agents that lack a medium of exchange (note that this is the main problem, not the lack of money as a store of value). If the scheme exhibits strong growth and widening acceptance, the possibility of extending regular and large VP loans to applicants could be considered. But this would demand a dramatic increase in the staff and organisation complexity of the BLO, because loan applicants have to be vetted and collateral has to be

posted. This would probably also make it easier for the state or the central EU apparatus to achieve a ban against the system.

Also possibly a profitable business proposal

Assume the existence in one or more Eurozone countries of a mobile phone company led by people with a certain amount of creativity and open-mindedness. They could decide to be the center of a BLO-type project. They could start an exchange club and offer a bundle with a phone, a subscription, and BLO membership. This would have the largest impact if it was done in cooperation with one or more national popular organisations, as mentioned above. Realistically, such an initiative would attract a lot of new subscribers and generate much traffic for the company. Additionally, the company would benefit from extensive media coverage and be seen by a large share of the population as socially responsible and different from the usual run-of-the-mill corporation.

Political resistance from within?

Resistance from the state and mainstream media pundits have already been mentioned. Another and perhaps more surprising source of resistance against this scheme may be the leadership in some of the mass organisations whose members would benefit from it. Many such leaders are anchored in a marxist/communist/left socialist tradition. The proposal may easily be seen by some of these as a "petty bourgeois" invention of the "green" "alternative" type, only "giving the masses illusions" and "leading them astray in the struggle against capitalism and for socialism".

Better than the only and bleak alternative

By the proposed scheme it should be possible to activate a large underused potential that the hard-hit Eurozone countries have, unemployed or underemployed people, and to give many people a better life. It will also primarily stimulate domestic production, since VP's may not be used to pay for imports. The scheme could also be useful for non-EU-countries or regions like the near-bankrupt state of California. There it could be implemented by the state government, with immediate positive results.

Enabling unemployed or underemployed people to work for each other and (increasingly) to exchange goods and services with the rest of society, will - with immediate effects - ameliorate the dramatic and persistent decrease in living standards for most people, which is the bleak and only future (lasting many years) that the powers that be and most pundits are able to come up with. This scheme also has the advantage of increasing the political pressure on the establishment: if they consider it economically harmful they can avoid it by reverting to a national currency combined with negotiating for partial Euro debt forgiveness, as already argued by many dissident voices. This would be the best solution. But it seems to be politically totally out of the question for those in power. Therefore this proposal.