

Theory

The intent of alternative trading systems is to make currency systems more publicly controlled and adaptive so that they might perform in the interest of the public rather than according to the current convention of privately owned banking cartels controlling public currencies.

Governmentally controlled currencies are not necessarily better if the economic and monetary assumptions are structured by private and/or corporate interests for their own profits. Thrift cooperatives, also known as credit unions, in their origin if not by their current practices, were intended to address abuses of privatized currency and banking systems.

Money is simply and only a legal institution to facilitate economic exchanges. It is often presented as if it were a limited commodity when it is in the interest of those who control its creation and circulation. It is in the deviousness of privatized monetary systems that money is used as having different features according to which might best serve the profits of the banking industry. For the bankers money is both something that can be created out of thin air, and something they control to serve their own profits. In other historical contexts sovereign governments have retained the power to issue currency.

Most monetary theory is based upon the idea that the market will determine the issues related to the supply and demand of credit and currency. Under current economic and monetary theory the market is not a neutral force or arbiter. The market is in effect defined by privatized corporate banking and financialized investing which tend to act in a predatory way. The privatized banking and monetary system benefits during all parts of economic cycles.

The intermediary role of a privately owned banking and currency system means that the banks and the investors are the agents who will determine whether or not the funds, currency, or credit will be available and at what interest rate for any particular project or process that is not self financed.

In this process there is no sharing of risk in the investment process other than by the possible default of the borrower. When the extension of credit is based on a fractional reserve process or a debt based security the actual risk by the primary lender becomes much lower. There is a need for alternative trading systems that can benefit primarily producers and consumers, and that include the interests of the community other than as an opportunity for the externalization of costs or debt.

Practice

The American Revolution was caused largely by the impoverishment of the British colonies in North America by the English Parliament. In about 1750 Benjamin Franklin was visiting England and was asked why the colonies were so prosperous when at the same time the rate of unemployment and poverty in England was so high. His reply was that it was due to the use of barter, scrip, tobacco receipts, and independently issued letters of credit.

To correct this prosperity the English Parliament passed laws in 1751 and 1764 requiring that taxes and trade in the colonies be conducted in British "sovereign" currency. These new laws caused major economic problems for the colonists. Much of the economy in the rural areas of the colonies was based upon barter, scrip, and letters of credit, not based upon British sovereign currency. These laws made it very difficult for the colonists to

pay their taxes or to conduct commerce. The magistrates and sheriffs appointed by the English governor then seized personal property in lieu of unpaid taxes and fines. Going from a period of prosperity quickly into a period of hardship, sharpened the connection of those laws to the changed economic position of the colonists.

One of the reasons for periods of economic stress under a debt based monetary system is the lack of available currency to repay debts and to conduct trade. This can be caused by several factors. Another could be the dominance of debt based money in a region. Debt based "currency" is erased upon payment of the debt, including the related interest. Another reason is the allocation of funds toward potentially higher rates of return Areas where natural and raw resources are produced or where communities are dominated by outside. corporate interests will have both wealth and currency drained away.

Alternatives

Knowing how to barter is a useful skill so that trade can continue when the dominant currency becomes scarce or unavailable to parts of the population, such as people lacking corporate employment or minorities that are discriminated against in employment.

It is legal to establish alternative monetary systems to operate on a community and voluntary basis. It is also possible to organize these exchange groups or community currency systems to operate for their educational value so that it would reflect how a monetary system could be operated on a non- fractional reserve, asset based, shared risk, and interest free basis.

The US Internal Revenue Service has ruled that community based currencies are allowed as

long as the currency is denominated in US dollars. The reason for this is that the IRS then expects that income based in these currency systems will be reported and the levied taxes on income will be paid.

A key difference between a community based currency and a national currency will be that the community currency will tend to circulate in its base community. This makes alternative currency and trading systems important in efforts to re-localize economies. Second by government sanction a national currency can be legally defined as legal tender for the payment for all debts. This makes participation in alternative currencies to be voluntary.

These limitations mean that the wealth generated in using these community based currencies will tend to remain in that community. Typically such community currencies are also not usable to pay either local, state, or federal taxes directly. In a simple alternative currency system which is based upon hours of labor, where an hour of unskilled labor is made equivalent to an hour of skilled labor requiring years of experience and a substantial set of tools, skilled workers will avoid participating. Thereby the type of services most often needed are excluded. An alternative is to set skill levels and or to leave the rate of exchange open to negotiation.

To have a community currency system grow beyond a few people requires a separate clearing agent that will exchange the local currency into dollars or take those local currency units as deposits and then return the local currency into circulation. This is partly an administrative function and partly a process of guaranteeing the community currency. When the typical retail business accepts the local currency it is usually at about 10 % of the transaction. At this level the

local currency will have a positive effect but not as much as it would have at levels approaching 100%.

When the currency of a local exchange system can be simply purchased there is no incentive for people to produce a tradeable product or service. When the community currency is based upon a low tech paper currency there is a temptation to counterfeit. Certain types of community currency systems can operate as debt based systems rather than being based upon assets, as goods and services. In all currency systems there is the hazard of people hoarding the currency or credits as a commodity, which will defeat the purpose of the currency to facilitate exchanges. For the purpose of securing savings it is possible to create other forms of value.

LLP and LLC corporations can also serve as the basis of a membership exchange process. This would be a hybrid community exchange system where participation would be by subscription. A central accounting and clearing system could be maintained where accumulated assets could be recorded and changed to reflect internal redistributions of different types. Even if the goods and services were fully denominated by their dollar values and the exchanges took place within such a group of exchange partners, no tax would be paid until the partner's shares were withdrawn from the exchange. At that point the withdrawal would have to be denominated in dollars and taxes to the appropriate government would be paid by the individual exchange partners. There are several other features that can be added to a community exchange system as described.

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