

# QUAKER ECO-BULLETIN

*Information and Action Addressing Public Policy for an Ecologically Sustainable World*

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## The Dialogue on Money Continues

### ***Urgent Need for a Green Economy***

***Janet Minshall***

I am writing to agree with and expand on the comments of David Ciscel in the March-April 2010 issue of the Quaker Eco-Bulletin (*QEB* 10:2) entitled “The Place of Money in an Earth Restored.”

David says “Money and interest do not cause growth, though they certainly facilitate it. Paul Krumm’s essay builds a picture of interest and money in a static world. But money creation finances development in a dynamic world. Without the kind of money and interest system that (now) finances development, there would be no green technology, no transition to a sustainable world, and no conversion of the agricultural/resources/water sectors. It is money and interest that facilitate the potential for a green economy, once we decide politically that we should have a green economy.”

David states here the essence of the problem we face. Money and interest are not central to the move toward a green economy. What is central is the collective motivation and decision to have a green economy. Money is simply a culturally agreed-upon store of value. In earlier pastoral cultures, cattle, goats, sheep and pigs were the equivalent of money today, and local trade and barter were based on a common agreement as to the value of those domestic animals. As David indicates, the real problem is in gaining public agreement that we should have a green economy, that the health of the planet is actually central and necessary to our own health. A May 2010 CNN poll showed that 63 percent of the respondents felt, even after the terrible explosion and spill in the Gulf, that deep water drilling is necessary to insure our oil supply. If we had public agreement on working toward a green economy, then everything else we need in order to implement that agreement would follow and then deep water drilling would be clearly seen to be what it is: dangerous, risky and not in the public interest.

For example, it would become obvious that the risk of fouling the waters and the shorelines of the U.S., and thus eliminating the employment and the food supply derived from fishing and shellfish catches, is a risk too great for us to take. It would become obvious that endangering the major tourist draw of southern beaches, marshlands, and nearby islands that provides jobs and economically significant stimulus to local economies is too great a risk for us to take. And it would become obvious that such a high level of risk will continue to be too great for us, as long as the oil companies lack effective monitoring and cleanup technologies.

Up to the present, the companies that profit from deep water drilling have assured us that they were competent to take on the monitoring and cleanup responsibilities that they agreed were needed. Now we know that the oil companies are incompetent

to monitor and cleanup the damage caused by their offshore wells. What’s worse, we’ve found out that they have used highly poisonous dispersants to hide the evidence of their dirty deeds, the massive oil slicks they created on the floor of the Gulf. Thus they have compounded the dangers, both to humans and to sea life, of this massive pollution catastrophe. This disaster has made it clear, finally, that significant regulation of the industry is required. What’s more, we have the opportunity to help make that happen. Right now, while this outrage is still etched in everyone’s minds, we must step up public education dramatically to emphasize how urgently we need a green economy.

### ***Money and the Crash-Test Economy***

***Keith Helmuth***

Some years ago I attended a Mennonite Church conference concerned with the epidemic of farm failures. A number of participants had gone through the traumatic experience of losing their farms. Many more of us were pondering the future of our farm operations. Although my situation was small scale, I was dealing with the same problems which many medium and large farms over the continent were also facing—rising prices on purchased goods, downward pressure on farmgate prices and ruinous interest rates on credit. The northeast region where I lived had not, however, like the midwest, suffered a crash in farmland values.

It was agonizing to hear the stories of farm failure and farm loss told by persons who were the end of a multi-generational homestead farm heritage. It was disheartening to hear how clusters of failed farms were causing significant slumps in the social and commercial lives of towns and villages. It was even more disheartening to hear the CEO of a farm equipment manufacturer, which itself had sold out to a large Italian conglomerate in order to survive, tell the conference that this was just an unfortunate but necessary winnowing time, and when it was over there would be—sad but true—many fewer farms and farm families. The ones left, he assured us, would be stronger and better able to compete in the world economy of agri-business.

By the end of the second day I had a deep nagging feeling that something was missing—some element of analysis, some focus of understanding. I rose to my feet in an open discussion session and gave voice to my misgivings. I said, in effect, “Farms are not failing. The soil is still fertile. The sun still shines and the rain still falls. Seeds still sprout and plants still grow. Animals still mate and give birth. The skills of farm families are still intact. The technology of farming still functions. It is not the farms that are failing. It is the monetary system that is failing.” In case after case this was the crux of the story. It was the failure of the monetary system to support good farming and not the failure of farm ecology that was ending the livelihood of farm families.

**Quaker Eco-Bulletin (QEB)** is published bi-monthly by Quaker Earthcare Witness (formerly FCUN) as an insert in *Befriending Creation*.

The vision of **Quaker Earthcare Witness (QEW)** includes integrating into the beliefs and practices of the Society of Friends the Truths that God's Creation is to be held in reverence in its own right, and that human aspirations for peace and justice depend upon restoring the Earth's ecological integrity. As a member organization of Friends Committee on National Legislation, QEW seeks to strengthen Friends' support for FCNL's witness in Washington DC for peace, justice, and an Earth restored.

**QEB's** purpose is to advance Friends' witness on public and institutional policies that affect the Earth's capacity to support life. QEB articles aim to inform Friends about public and corporate policies that have an impact on society's relationship to Earth, and to provide analysis and critique of societal trends and institutions that threaten the health of the planet.

Friends are invited to contact us about writing an article for **QEB**. Submissions are subject to editing and should:

- Explain why the issue is a Friends' concern.
- Provide accurate, documented background information that reflects the complexity of the issue and is respectful toward other points of view.
- Relate the issue to legislation or corporate policy.
- List what Friends can do.
- Provide references and sources for additional information.

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The dissonance between the way the biotic environments of Earth actually work and the way the money system works is becoming increasingly evident throughout the whole range of the economics-ecology relationship. Farming is just one example of the problem. We are living in a crash-test economy.

I came from the conference determined to figure out why the monetary system was deconstructing productively viable and socially valuable farms and farming communities. Slowly—because I still had a farm to run—I sifted my way through the mystification that surrounds the behavior of money. In my own farming practice I had been endeavoring to chart a responsible course through the contradictions of commercial enterprise and ecological integrity. Now, through the combination of my business experience and my study, I was steadily backing into an unsought conclusion: The way the money system works—along with the mindset, values, and behavior the system engenders—is the central stumbling block over which all our efforts to do the right thing ecologically and socially continue to trip. The monetary system is like a powerful emulsifying current that engulfs and vitiates all the streams of ecological and social equity initiative that arise in the cultural watershed.

Management consultants will tell you this is all just a management problem to be solved by increasing management expertise. It is difficult to see how anybody can now really believe this strangely utopian notion. It is obvious that with regard to the conflict between economic activity and ecological integrity, "management" now mostly means negotiating the rate of environmental destruction.

Paul Hawken, in *The Ecology of Commerce*, puts it succinctly: "... what we have is not a management problem but a design problem." Unless the way money works can be altered, by design, to support sustainable human settlement, the deterioration of Earth's natural and social ecologies will continue to an increasingly imaginable end, a growing vortex of ecological and social system deterioration. It is not just the love of money—old fashioned greed—but the particular technology of the current money system and the specific way it works that is crucifying the hope of social equity and its necessary context of ecological integrity.

Doing business and doing the right thing socially and environmentally must become a single focus. The contradiction between business activity and a healthy Earth environment must be resolved if the market economy, with all its amazing benefits, is not to be written off in the master ledger of ecology. The human economy is a wholly owned subsidiary of the Earth economy and we all know what happens to a subsidiary that becomes a drag on the parent enterprise. A new operating platform is urgently needed, and a redesigned monetary system will be a key component for rescuing the market economy from its crash-prone behavior.

If we take the common sense point of view that a functional money system should be a helpful tool in developing a sustainable economy, then the present money system has a fundamental flaw. The monetary system as it now operates in Canada and the United States—and more and more over the whole world—systematically and by design creates an economy of debt. Attached to this intentional creation of debt is what economic historian, John L. King, calls "the invisible wrecking machine" of compound interest. The effect of compound interest in an environment of debt is to create a chronic shortfall of affordable money in the productive sector of the economy. In this situation many farms and other small businesses cannot survive. The "invisible wrecking machine" wipes out perfectly good businesses in pursuit of ever-larger concentrations of resources and wealth.

The environment of debt, under the technique of compound interest and chronic cash shortfall, creates an unrelenting push for economic growth. As the owner and/or manager of several businesses, I have personally experienced this reality. As a member of the Board of Directors of a Credit Union for twenty-five years, I saw many instances of this dynamic impacting small business operations.

But unlimited economic growth in an environment of real limits is a recipe for disaster, a recipe for the progressive destruction of both natural and social ecologies. This addiction to unlimited growth is now “hitting the wall” of Earth’s limited ecology. In this historic confrontation we are right to be concerned about the undermining of small farms and other small businesses, because they have the best chance of successfully adapting sustainable practices. But a concern for the monetary system is also in order. If, as seems to be the case, the current monetary system is fundamentally incompatible with the way the economy of Earth actually works, it will probably end up like Humpty Dumpty—a crash-test causality—and we will have to put another one together again.

Fortunately, a considerable amount of information going back many decades is available on monetary reform. In various ways this work of economists, businessmen, and financial and public policy professionals now combines to reclaim the function of money for the commons and create a technology of money that works, by design, for social equity and sound ecological practice.

For example, in the U.S., Congressman, Dennis Kucinich, and a group of fellow legislators have introduced the American Monetary Act in the House of Representatives. In addition, the Green Party in the U.S. has just announced its platform on monetary reform. The Canadian Action Party has long campaigned for similar reforms. In the UK and across Europe a rising tide of serious monetary reform scholarship and politics is gaining ground. (Robertson, 2004)

The old system has massively discredited itself. We are in a rare time of critical transition. Something new in the field of money is being born that is both intellectually and morally compelling.

## ***Alternatives to our Money System***

***Paul Krumm***

I appreciate the responses of David Ciszel (*QEB* 10:2) and Janet Minshall, as they represent the dominant view amongst bankers and economists for the last 150 years. This view has been taught exclusively for at least the last 50 years in schools of economics. Thus, their description is understandable, and gives me a chance to critique this view from an historical and theoretical standpoint.

A major problem with this current view is that it starts with the assumption that money and interest are integral to each other, and then justifies this assumption by describing how interest works within the current money system. This view, without explanation or documentation, insists that the money structure does not require growth. In re-reading my previous piece, in *QEB* 10:2, I realize that I left out a crucial step in the argument of how the money system structure forces growth (or other nefarious results).

Because the money to pay interest is not created at the time of loan creation, more money is due at the end of any time period than was created at the beginning of that time period. One or more of three things has to happen to take up this slack. 1) The economy must grow; 2) someone must go bankrupt so others have the money with which to pay their interest; or 3) there must be inflation, with more money created by fiat out of nothing to

chase the same amount of economic activity. Inflation of this sort is a tax on the economy whose beneficiary is the banking system.

The following is a look at the historical record and previous theory to see what the results are with other possible alternatives.

The issue of interest is at least as old as the Christian faith, with Jesus overturning the tables of the money changers, and the Catholic Church eschewing interest until the last 150 years, when it found itself in the position of holding more money than land. Notably, the Muslim faith still holds to the view that interest should not be a part of their money system, and some Western banks now cater to this value.

Interest discounts money in the future, making all monetary decisions promote short-term thinking. Any long-term investment has to return more than the prevailing interest rate, or it is constantly losing value. For example, planting slow-growing trees is not a good investment in the present money regime. In addition, as explained in my previous piece (*QEB* 10:2), our present money requires constant exponential growth. Exponential growth requires constantly increasing commoditization and monetization of natural resources, which forces their degradation, as noted by Keith Helmuth above.

Modern experiments come largely from the 1906 theoretical work of Silvio Gesell. He showed how currencies that involve interest promote monetary cycles. In the present system, money is hoarded in times of scarcity, making it more scarce and creating a vicious cycle. Similarly, money is invested and spent in times of plenty, heating up the economy and making the other half of the vicious cycle of boom and bust.

Gesell argued that for a money system to be stable in the long term, it would require that the money itself become worth less over time. This can be accomplished by the charge of negative interest called “demurrage,” a fee for holding onto money. Through this mechanism, long-term investment is not fighting the necessity of growing faster than the value of money held. Gesell also foresaw that demurrage money would not promote the economic cycles that positive interest promotes, and that it would not necessitate continual growth of the economy.

The first major experiment based on Gesell’s theory occurred in Schwanenkirchen, Germany, in 1930, where a coal mine was about to go bankrupt in an area of high unemployment. The owner explained to his workers that if the company was not to go bankrupt, they would have to accept 90 percent of their wages in receipts for the coal that they were producing. He arranged with local stores to accept these receipts in payment for groceries and other needs. Anyone could redeem them for their face value in coal, which everyone used.

The receipts required that a stamp be placed on them each month to maintain their acceptance. The cost of the stamps underwrote the cost of storing the coal that backed the currency. This stamp system constituted a negative interest rate. Because no one wanted to hold on to this currency and have to pay the monthly stamp cost, it was used/passed on to another person instead of hoarded. This currency saved not only the coal mine, but it also brought prosperity and full employment to the town, and began to be replicated all over Germany. Within two years the practice was outlawed by the German Government, after

which mass unemployment resumed, leading to the takeover of the government by the National Socialists and Adolf Hitler.

Another experiment took place in Worgl, Austria. Again, there were many people wanting work and many needs for the town. As in Schwanenkirchen, the local economy immediately improved. All needed city improvements were made, the economy flourished, nearby forests were replanted, and people even paid their taxes ahead of time! Again, the experiment was replicated in other Austrian towns, and again it was shut down by the federal government because of its threat to the current banking system.

In 1934 another system called the WIR was initiated by a group of businessmen in Switzerland. The WIR is a mutual credit system where money is created by individual transactions. When a buyer and a seller agree on a transaction, the seller is credited with the amount of the transaction and the buyer is debited with that amount. The money supply in this type of money system automatically adjusts itself to the needs of the economy, so there is never a question of having the correct amount of money in circulation to prevent the tendency toward inflation or deflation. Both negative and positive balances exist, and the aim is to maintain balances near zero, rather than always positive.

Decisions as to whether a transaction is appropriate are made by the traders, and in cases of larger amounts, by their trading partners, not some external institution that is trying to maximize its profit. Thus, investment and trade can concentrate on serving community needs, rather than needing to produce a profit for the bank. The WIR system still exists today, and is credited with helping to maintain political and economic stability in Switzerland. Its current volume is about 2.5 billion Swiss Francs per year, which grows in times of national currency shortage, and ebbs in times of national currency surplus, mitigating the adverse effects of economic cycles. This example negates the propositions that 1) interest is necessary for development, and 2) monetary systems that do not include interest cannot deal with a dynamic economy.

The U.S. has a long history of local currencies. Some were created by businesses, and others were created by chambers of commerce or city or town governments. The best documented examples come again from the 1930s and draw from the work of Gesell. Irving Fisher, an economist at Yale University visited Worgl, and came back to promote the idea in the U.S. Fisher contacted Dean Acheson who was Undersecretary of the Treasury. Acts were introduced in both houses of Congress. However, after consulting with other economists (who noted that such a system would indeed end the depression within six weeks), Acheson was told it would involve decentralization, which should be checked out with the banking industry. It was decided, instead, to go the road of central control. The New Deal was proposed, and passed. The local emergency stamp scrips already in service were made illegal, as in Germany and Austria.

These examples demonstrate two concepts. First, interest and money are not inextricably necessary to each other. Second, by redefining the way money is defined and practiced, the values promoted by its use can be made consistent with long-term thinking and considering the resources of the earth. It is not necessary to enact regulations to keep people and businesses from trying to outwit the system to their advantage if the common good is promulgated by the system structure itself.

I agree with the other writers here that there is a need for political motivation and a collective decision to build a green economy. It is my point that trying to do so with a language (money system) that works against the values necessary for this transition makes it difficult or impossible to happen. I know that transition from our present financial system to one that embodies the above ideas would involve major adjustments. The question we are left with is: Do we want to continue with a basically unstable, unsustainable monetary system that promotes short-term thinking, and requires exponential growth, increasingly monetizing and exploiting natural resources? Or should we convert to a system that will serve our grandchildren, as well as the commons and its natural capital?

## What Friends Can Do

The future of Earth's ecosystems and humanity's social and economic life are bound up with the operation of monetary systems. There are real differences and real choices to be made. One kind does not serve all cases. Friends can engage the public policy dialogue on money, with respect to ecological integrity and social equity, by educating themselves about how money works in our society.

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**Paul Krumm** is a semi-retired inventor and contractor, who has been interested in the study of money for 30 years. He lives off the electrical grid in an earth-sheltered home with his wife Micki in central Kansas. Since there is no Friends Meeting where they live, they attend the Unitarian Fellowship in Salina, Kansas. They always look forward to the Missouri Valley Conference, their main contact with Quakers.

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