

## **The Need for Monetary Reform and the Status of the Movement**

Thomas H. Greco, Jr. March 19, 2004

### **What is Needed to Solve the Problem?**

The denationalization of money, the separation of money and state is urgently needed.

### **Prospects**

Don't expect the politicians to do the right thing. The good news is that the answers can come from free people exercising their rights of contract and association.

### **The main problems are:**

- Legal tender status for FED-created money.
- The monopolization of credit by the banking cartel.
- Lack of an objective, non-political unit of account.

The unit of measure of value and the means of payment are two different things. The former is a measure, like an inch or a pound; the latter is either a commodity or a credit instrument (an i.o.u.).

Free people can voluntarily choose to use their own accounting unit in dealings among themselves. A particular weight of silver or gold would be better than an undefined, manipulated currency unit (e.g., the dollar).

Historically, the U.S. dollar was both a silver coin and a monetary unit that was originally defined as 371.25 grains of fine silver. The early paper bank notes, denominated in dollar units, promised redemption in silver dollars, thus they were accepted as payment for various goods and services to the extent of the value of the silver promised. When an issuing bank was not known to the seller of goods, or he had doubts about the bank's solvency, its notes could be refused or discounted from face value. When paper notes denominated in dollars were forced to circulate at par, that standard was obliterated.

A unit based on a specified assortment of basic commodities would be better than a unit based on silver or gold or any other single commodity.

In any case, using a silver or gold unit of account does not mean that payment must be made in silver or gold or that paper notes and ledger credits should be redeemable for silver or gold. Rather, if a dollar is defined as so much silver, and I owe you 100 dollars, that does not necessarily mean that you can demand payment in silver. It just means that I owe you 100 dollars WORTH (of something), and that worth is determined by the current value of silver relative to all other goods and services. We need not revert to commodity money as a means of payment in order to have an honest money system. Credit money can be perfectly sound if properly issued on the basis of an adequate value foundation, like goods in the shops or on their way to market. But since credit money is an i.o.u., the market must be free to refuse it or discount it. Only the issuer should be compelled to accept his own currency at face value (par) because that is his promise, and his alone.

Again, goods and services pay for other goods and service. We just need an honest measure, and freedom.

Using a commodity or commodities to define a value measure is quite a different thing from using a commodity as a means of payment. Commodity money is a primitive form; credit money is a more evolved form.

When I describe commodity money as "primitive," that implies no value judgment. The word means

"pertaining to an earliest or original stage [of development]," so, since commodity money was the earliest form of money, it is, in fact, primitive. While commodity money can be useful in particular circumstances, I believe that the more evolved forms are more APPROPRIATE to the goals of personal freedom, social justice, peace, harmony, and economic equity.

I have no gold or silver. What I do have to offer to the market is goods and services. You, likewise, probably have no gold or silver, but offer other goods and services to the market. Ultimately, we each pay for the things we buy with the things we sell. In other words, **goods and services buy other goods and services**.

The problem then becomes, how do we transcend the barter limitation, i.e., the "double coincidence" of wants or needs? Sure, we can use some commodities that are in general demand as an intermediary, like gold or silver, or, as was common in early post-war Europe, cigarettes, Hershey bars, and nylon stockings.

But it is much more efficient to simply sell to one another on credit, and then spend our credits to requisition whatever we may want from others in the market. The supply of any chosen commodity (like gold or silver) is limited and most of the gold and silver is closely held by those who run the system, the central governments and central banks. They decide the price we must pay for those commodities. But credits can be created as needed at minimal cost so all desirable trades can take place.

To be sure, credit money has been abused. The banking monopoly has perverted it into usury-debt money. The answer is not to discard credit money, but to perfect it through the establishment of mutual credit-clearing networks and independent private and community currencies.

This will not only liberate the exchange process but will help to knit a new social fabric to replace that which has been corroded by the dominant system.

It is worthwhile to read the works of E. C. Riegel. His exposition of the nature of money and its workings is masterful. His philosophy was strongly libertarian (with a small "l"), and his proposed solutions are elegant.

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### **The State of the Monetary "Reform" Movement**

Money has been, a recurrent political issue, but from World War II on into the 1980's, it became obscured from general public view. The debate, if there was any, shifted away from the proper structuring of money and banking to mere policy issues – how to operate a system that was deemed by its proponents to be "the best of all possible worlds." Even today, the vast majority of people are oblivious to the dysfunctions inherent in the dominant monetary regime and its impact upon their personal fortunes.

Beginning in the nineteen-eighties with the advent of commercial "barter" or trade exchanges, and the emergence from the grassroots of mutual credit associations and local currencies, the money issue once more began to attract attention. From that time until the present, we have seen a rapid proliferation of these systems around the world until they now number in the thousands. There is a growing recognition of systems like LETS, Time Dollars, and local currencies. We have also seen a growing wave of activist energy directed toward attempts to reform the dominant national monetary and financial systems, with a particular emphasis on the matter of usury.

Encouraging as these developments might be, the movement remains fragmented and has yet to make a significant economic impact or to involve more than a handful of individuals. The typical pattern for grassroots-based mutual credit, LETS, and community currency systems is strong initial enthusiasm and rapid growth in participation, followed by a slow decline and volunteer burn-out, followed by the system either going defunct or limping along at a minimal level with little trading and a much diminished participant base.

The pertinent questions, it seems to me are:

What are the main factors responsible for this pattern?

How can mutual credit and community currency systems be made to sustain themselves, and to thrive beyond the initial spurt of enthusiasm?

And, perhaps more importantly, as was posed by one of my correspondents,

“What are the underlying issues that are preventing everyone seeking monetary reform from working together,” and “How can we build synergy toward empowerment of the people?”

If we can find satisfactory answers to these last two questions, we will, I think, be well on our way toward answering the others.

Here are some of my views on that.

First of all, there are, on the one hand, those who are aiming at monetary reform, and, on the other, those who are seeking to transcend the dominant structures of money and banking. These two approaches are quite different from one another. The former accepts as given the socio-political foundations of the present regime and does not question its basic assumptions. The latter takes little for granted and seeks to reinvent money and banking to better serve their intended purposes; it is a more thoroughgoing, more "radical," approach that begins with a particular set of principles and ideals.

Most of the reform attempts, for example, accept the dogma of statism as the dominant "religion," and believe the fallacy that the money power should rest solely in the hands of the state. A few would admit the possibility of supplementing state (or central bank) money with local community currencies, but fail to see the deeper implications. As Ulrich von Beckerath says, "extension of exchange transactions without State money is in reality the beginning of a new system of settling accounts, indeed the beginning of a new economic order."

I do not raise this point to further divide the "reformers" from the "transformers," but to show how they might be brought into alignment toward a common goal. If the fundamental goal is "empowerment of the people," then action needs to be taken on every level, and every opportunity must be exploited. If we can find a way to ramp-up the pressure toward empowerment, then it will ooze into every available nook and cranny and expand into every opportunity that presents itself. Sometimes it will look like a step toward reform, and sometimes it will be a new, complementary approach to mediating exchange.

There are many of us who have become aware that solving the money problem is fundamental to solving the other critical problems facing civilization, and have made it the central focus of our energies. I believe that those of us who are serious about making a contribution to solving it must first educate ourselves, learning everything we can about the principles of exchange and finance.

As a comparison, we might ask, Why were the Wright brothers successful in achieving manned powered flight when so many others had failed? It seems clear to me that it is because their approach was systematic. They learned all they could about the principles of flight by reading what others had already learned, by observing the phenomenon of flight in nature, and by experimenting with different possibilities that presented themselves.

We must do the same. It is important to study both the history of money and the theory of money, to observe how things work in nature, to study the systems that already exist, and to design our experiments to be unambiguous in their answers. What has and has not worked in the past? Who has proposed promising solutions that have not yet been adequately tested or demonstrated? How, where, and under what circumstances, can those proposed solutions be adapted to today's situation?

My own inclination is toward "freedom approaches," with a particular focus on what can be done by associations of businesses, by grassroots organizations, and even by municipal and provincial governments. I do not wish to shift control of the money monopoly from one group to another; I seek ways to transcend it. Thanks to some very brilliant thinkers who have preceded us, I think we now have an adequate understanding of the principles needed to design exchange mechanisms that are sound, effective, and economical, but more importantly, honest, fair, and empowering. And, thanks to the new computerized telecommunications technologies, we have the necessary tools and infrastructure to easily implement them.

If the various approaches to solving the money problem are to be harmonized toward a common goal, we must at least have a common understanding about what money is. After 25 years of intensive research, it has only recently become clear to me that money has evolved through several different stages. We must make a clear distinction among the different kinds of money that have been used, and understand the characteristics and limitations of each. [I have written about this elsewhere, for example, in an article that was published in NORFED's recent book, *The Liberty Dollar Solution To the Federal Reserve*. My article entitled, *New Money for Health Communities*, begins on page 306.].

The main points I make in that article will be further elucidated in another book that I hope to complete soon. Everyone needs to understand the progression in the chain of evolution of the exchange process. It has evolved from simple barter, to commodity money, to symbolic money, to credit money, to credit clearing. While all of these forms are called "money," they are each distinctly different "animals" with distinctly different characteristics. This will be further elaborated elsewhere.

For now, I wish to emphasize the point that commodity money, like gold and silver, while it may offer a partial solution if and when things become chaotic, remains a primitive medium of exchange. It can serve as a store-of-value, is useful for impersonal exchange transactions, and provides portability of wealth. But ultimately, our best security is in our relationships with each other. Mutual credit clearing will ultimately provide a much more efficient and effective mechanism for exchange, if we can achieve the necessary level of organization. And, this need not be limited to small local circles, but can proliferate into a federation that can span the globe.

In 2003, a team of associates established a new website called, [www.reinventingmoney.com](http://www.reinventingmoney.com), dedicated to promoting freedom approaches to solving the money problem. More and more people are aiding in the effort and we are gradually compiling and making accessible the most insightful and promising materials available. I particularly recommend to everyone the writings of E. C. Riegel and Ulrich von Beckerath. Yes, there is a lot there to read, but a good start can be made with Riegel's *Flight From Inflation*, and Beckerath's *The Practical Realization of the Milhaud Proposals*. Just these two will provide a better education in money and banking than can be had at any university.

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