98. Letter from Greece by Tom Greco

A Proposal for bringing liquidity into an economy free of interest, inflation, and boom and bust cycles.

ABSTRACT

Most economies suffer from a lack of liquidity, especially outside the large corporate sector. This lack of liquidity is a fundamental cause of unemployment and failures of small and medium sized businesses. It generally derives from flaws that are inherent in the centrally controlled systems of money and finance and the increasing indebtedness of both the private and public sectors. The surrender of monetary sovereignty by national governments, such as those in the Eurozone, and their increasing indebtedness, such as in the case of Greece, have made it virtually impossible for their economies to thrive. This article describes how domestic or community liquidity, i.e., means of payment that enable the process of reciprocal exchange of value, can be created by various entities at various levels from communities and business associations. to municipal governments and agencies, to national governments. The main obstacles to their implementation are not economic, but organizational and political. *[Friday 7th September 2015]*

It should be a self-evident principle that the first duty of Governments is to promote the common welfare and to do whatever they can to create the conditions necessary for each person to live a dignified and fulfilling life.

Solving unemployment and facilitating domestic trade in the face of liquidity shortages

Unemployment is usually caused, not by any fundamental economic deficiency, but by malfunctions in the systems of exchange and finance. Misconceptions about money and banking and the violation of sound principles relating to credit have become endemic throughout the world resulting in untold misery and conflict, all of which can be avoided by the creation of parallel systems that are properly constructed and managed. There is no good reason why willing workers should not be employed to fulfill unmet needs. If lack of money to pay them is the case, that is easily solved.

The national government can act to reduce involuntary unemployment by allowing and supporting, at all levels, the creation of mechanisms for the efficient exchange of goods and services, i.e., parallel systems for creating liquidity.

1. Providing liquidity at the community level

1.1. Private currencies

Private currencies issued by trusted producers of desired goods and services can provide “home grown liquidity,” i.e., non-conventional means of payment that can be circulated amongst others in the community to enable numerous additional sales and purchases prior to being received back by that producer as payment for his/her own goods or services.

As an example, consider a local electric power company that produces and sells electricity to customers in a community. Since electric power is in general demand, it provides an ideal foundation and basis for the issuance of a currency, provided the company is solvent and honest in its dealings. The company can spend its currency into circulation, using it to pay (at least in part) salaries to its employees and amounts owed to its suppliers and various contractors. These recipients, in turn, can use this currency as a general means of payment in any market transaction such as the purchase of the goods of local shops and the services of various professionals. The currency units (possibly referred to as *vouchers*, *notes*, *certificates*, *warrants*, or by some other name) might thus change hands many times enabling sellers to make more sales, and potential buyers to fulfill their needs to a greater degree. Ultimately, of course, the issuing company must redeem its own currency, which it does by accepting it at par from its customers as payment for their electric bills.

This approach provides an interest-free source of credit to the company, enables fuller employment of the available skills and talents of the people in the community, and encourages greater local production because local suppliers will be favored over those that are far away who must be paid with some more universal but less available currency.

1.2. Mutual Credit Clearing

Mutual Credit Clearing associations provide another method for creating liquidity at the community level and enabling reciprocity in the exchange of goods and services. A credit clearing system is an arrangement in which the members of an association of traders, each of whom is both a buyer and a seller, agree to allocate to one another sufficient credit to facilitate transactions amongst themselves. That means they simply keep a record of their purchases, sales, and account balances. When a members buys something from another member, the agreed price is subtracted (debited) from the account of the buyer and added (credited) to the account of the seller. Thus, members' balances fluctuate over time, being sometimes negative (in debit) and sometimes positive (in credit), but never allowed to remain too far in either direction.

The fact is that goods and services pay for other goods and services, whether we use money as an intermediate payment medium or not. Direct credit clearing makes the use any third party credit instrument (including conventional money) unnecessary.

Anyone who has used a LETS system or a commercial trade ("barter") exchange already knows how credit clearing works. The important point to understand is that in multi-party clearing *what you owe to one party can be cleared or netted against what some other party owes to you*. In effect, your debtors (those who owe you) pay your creditors (those whom you owe). Another way of looking at it is that the credit that members allocate to one another provides a sort of internal currency that they use to pay one another. Instead of being based on the credit of a single issuer as in the first example above, mutual credit clearing circles allocate credit to several members to provide an internal payment medium that can circulate amongst **all** its members. Again, this "currency" is free of interest. It is also non-inflationary since it is created only on the basis of real goods and services as they are being bought/sold.

The reach of mutual credit can be further extended into the community by allowing members to draw "clearing certificates" against their accounts to use in making purchases from any non-members who are willing to accept them as payment. These "clearing certificates," secured by the collective credit of the association members, can then circulate outside the association as a complementary currency to mediate trades amongst all who are willing to accept them, until they are returned to the association by being used to make a purchase from a member. If these certificates have an expiration date, there will be no problem of slow circulation or excessive accumulation.

2. Providing liquidity at the level of municipal or regional governments

Municipal and regional governmental bodies can act either directly or indirectly to provide needed liquidity within their domains.

The indirect approach involves various kinds of support for the private and grassroots initiatives described above. For example, a municipality might provide space for offices and marketplaces on a low-cost or no-cost basis to mutual credit clearing associations; it might provide them with advice or technical assistance of various kinds; and it might even accept their trade credits or private currencies in payment for local taxes, fees and fines.

The direct approach has the local government itself as the issuer of a currency. Based on its expected revenues over the short term, say 6 months, it could spend its currency into circulation then at tax payment time, receive it back in payment of taxes. In the interim period, its currency could enable many additional sales and purchases as it changes hands in the community.

The currency might also be issued by one of the municipalities agencies, like a water authority or transit company. The issuance and redemption process would be the same as for a private issuer.

3. Providing liquidity at the level of national governments

National governments around the world have, in recent times, surrendered considerable amounts of sovereignty to non-democratic institutions that are controlled by unelected and even unknown persons. This is being done by means of, not only of currency unions, but also by international "trade agreements" such as those resulting in the World Trade Organization. that short-circuit the processes of democratic government. Increasingly, power is made to reside in bodies such as the Bank for International Settlements, the World Bank, the International Monetary Fund, central banks and the major international commercial and investment banks. If this trend is allowed to continue, the eventual result will be the complete surrender of power to a new world order that leaves democracy as only a memory of an unrealized vision.

While there may be restrictions placed on it by international treaties, a legitimate national government need not be forever bound by those that are deemed to be odious, illegitimate, immoral or illegal. Such a government can choose to act unilaterally in reclaiming its sovereignty and the birthright and heritage of its people.

In accordance with that principle, the Greek government, or the government of any other nation, can choose to implement its own domestic currency or currencies as a way of fulfilling its mandate to serve the common good.

3.1. Tax anticipation warrants or notes

A circulating exchange medium can be created on the basis of future tax revenues. Tax Anticipation Warrants or Tax Anticipation Notes (TAN) have a long history of use by governments throughout the world. As a way of financing its operations and providing the domestic economy with needed liquidity, the national government can issue Tax Anticipation Notes as follows:

1. TAN should be spent into circulation by the government,
2. In a form that can be circulated,
3. As payment, at par with the official currency (euro, dollar, or whatever it may be),
4. To employees, pensioners, contractors, and suppliers,
5. In amounts no greater than anticipated tax and other revenues in a six month period.
6. TAN should not be given legal tender status,
7. Nor be redeemable for official currency,
8. But only in payment to the government for any taxes and dues, at par with euros.
9. TAN should carry an expiration date of six months to two years after their issuance,
10. But they should be exchangeable at par, prior to expiration, for any new warrants that the government might issue in the future.

3.2. Reemployment notes

Aside from issuing a currency to finance its ongoing operations, the government could, through the treasury or its wholly-owned development bank, provide interest-free, short-term loans of a domestic currency to domestic producers of essential consumer goods. This currency, circulating in parallel with the official currency, would enable the reemployment of idle workers while at the same time bringing additional products to market to satisfy previously unmet needs. As these products are sold, the loans would be repaid and the currency extinguished or reissued to finance additional business expansion as circumstances might require.

Such issuance will not be inflationary so long as the loans are used to immediately (or shortly) put into the market proportionate amounts of valued goods and services. Loans of this sort might also be made for the purpose of providing new infrastructure, such as port facilities, highways, rail lines, etc., that result in increased domestic productivity in the near term. Thus, the state can create sufficient money itself to enable its economy to thrive, rather than allowing private banks to do it then paying them interest for the privilege of "borrowing" it.

In sum, Reemployment notes are:

- A domestic currency,
- Issued by a government-owned development bank or agancy,
- As interest-free, short-term loans,
- To domestic producers and sellers of essential consumer goods and services.
- That enable reemployment of idle workers,
- While at the same time enabling the sale of necessary products and services that are already in the market or about to be placed in the market.
- Without inflation.
- The loans to be repaid and the currency extinguished or reissued on the same basis.

Longer term infrastructure projects will need to be financed out of savings of the people so as not to unduly disturb the price level or devalue the domestic currency. In either case, there is no need for bank borrowing at interest, nor any need to pay interest on savings. In a stable, interest-free economy, people's desire to provide for their future needs is sufficient reason for them to save their present surplus. This is currently evident as banks are now paying virtually no interest on savings deposits, and in some cases applying even negative interest on deposits.

Technical Note:

Journalistic and even scholarly articles and discussions about monetary and financial innovation generally fail to distinguish among these three distinct elements:

- The essence of a currency,
- Its form of manifestation, and
- Its methods of transmittal

Here are the fundamental points that needs to be understood:

The essence of a currency is credit. It is the issuer's i.o.u. or promise to reciprocate, i.e. to provide real value and accept his currency back as payment.

A currency can manifest as a paper note, a number in a ledger (written or computerized), a smart card balance, etc.

A currency can be transmitted hand to hand, electronically within a ledger of accounts, via telephone orders, SMS (text message), etc.

In each of the above cases, the currency can be manifested and transmitted in whichever ways are most appropriate to the particular circumstances, but aside from actual commodities changing hands, a currency is inevitably a credit instrument.

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