

The Lot of the Currency Designer

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Once we realise that currency - nay, money in general - can be designed to fulfill or support specific objectives, it sets us free. Free from the constraints of the broken pseudo-science that is mainstream economics; free to recognise that not all transactions are of equal importance; and potentially free to redesign ourselves away from our existing pervasive elite monetary hegemony and reclaim the monetary commons.

This paper describes a number of legitimate objectives for a currency, getting liftoff and some selected design parameters. It then gives some views on cross-connecting currencies and concludes with a brief comparison with the 1930s: lots of creativity was shown then but most of it was subsequently buried - what is different this time?

The presentation aims to encourage the currency advocate and to emphasise that monetary economics is too important to be left to the economists.

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Acknowledgement: to Richard Douthwaite, much missed visionary, freethinker and friend.

Currency can be designed

We don't take money for granted - unless perhaps we are one of the 1% and have tired of the acquisitive accumulation game - because there's seldom enough of it to feed our peer-pressured, advertising-driven needs. But we rarely give the idea of money much thought or consider if money could work differently.

This paper is mainly about exchange currency - a sort of money that exists to facilitate the exchange of goods and services in a multi-player economy. Fiat currency (euros, dollars etc) performs this function but it also aims to be a secure store of value. As has been described elsewhere, these two functions sometimes act against each other. In this paper a functional means of exchange takes precedence.

The central theme of the paper is that currency can be designed to promote or support specific values, behaviours or outcomes. A mainstream economist might suggest that this was not appropriate - that currency should be neutral. It should facilitate any sort of exchange, and incorporate no inbuilt value-associations.

Unfortunately even fiat money fails this test, because it is created by being lent into circulation - created out of thin air as debt. The borrower backs himself to create value faster than the debt grows via compounded interest. The currency is provided by those who have more than they need (or have been given the right to mint digital money) to those who need more than they have. And the wealth

thus created is a capital rent, bestowed on the lender solely by virtue of the fact that he already has the money (or the issuance rights), not because he is clever or industrious.

It requires growth to repay the debt+interest. In theory the extent of the growth implied is moderated by a level of debt default. The interest rate is theoretically an indicator of risk - the higher the risk the more interest is payable. But more and more, as in the current crisis, debtors are not allowed to default - their debt is 'socialised' - that is picked up by non-participants in the loan, typically the taxpayer. The lender's position is held paramount.

There are a number of unfortunate aspects of this means of money-creation - its role in increasing inequality; its failure to stop the financialised-economy tail wagging the real-economy dog; its need for infinite growth on a planet with finite resources. But while we may be generally sympathetic to these arguments, and they certainly motivate the search for alternatives, they are not the subject of this paper.

This paper is about currency design as a legitimate profession. It anticipates and welcomes the emergence of multiple 'Designer Currencies'.

Design Objective #1 : increased liquidity

If we accept that currencies can be designed, one objective that comes to mind immediately is the need to increase liquidity. The current 'credit crunch' is largely caused by lenders' concerns that the preferential position accorded to them by politicians may not survive multiple banking crises and the progressive transfer of debt to citizens and its societal aftermath. Putting money under a Swiss or German government mattress (figuratively speaking) is perhaps the best way to store value until the crisis clears. Euros are scarce and getting scarcer by the day.

One school of thought here focuses on 'self-issued credit', where the currency is essentially created by each player issuing their own IOUs backed by a promise of future delivery of goods or services. This creates additional liquidity today, because these IOUs can be traded without the need for fiat currency.

Feasta's approach - the Liquidity Network (LQN) - is rooted in the work of the late Richard Douthwaite, a visionary and freethinking radical economist and author of the seminal 'The Ecology of Money'[2] (where a full but concise analysis of the functions of money can be found). Additional liquidity is created by the currency sponsor(s) spending or granting/ giving the currency into circulation.

This begs the question as to what, if anything 'backs' the currency. Store of value currencies clearly need some form of backing - that is they need to be exchangeable on demand into something of undeniable worth or they can make no claim to store value.

Douthwaite's view was that exchange currencies, once established, need no backing. They have value by virtue of the confidence that they are widely accepted within the community of use.[3] Indeed, the ability to 'cash in' the currency - exchange it for the backing commodity - removes it from circulation and decreases the very liquidity which we want to create. Thus in an established exchange currency there need to be 'leakage inhibitors' - mechanisms to stop, control or mitigate the loss of circulating currency.

In a pure Liquidity Network this leakage inhibitor is 100% - no formal exchange into another currency is allowed. In contrast, in a typical 'proxy pound' currency (like the Brixton, Lewes and

Totnes Pounds) the inhibitor is 5% - proxy pounds can be changed back into sterling at 95% of face value. Critics therefore claim that no additional liquidity is created. This may be a somewhat unfair criticism because liquidity can be measured as a combination of currency in circulation and velocity of exchange, and there are some claims that the latter may be increased.

The design of leakage inhibitors is a key tool in the currency designer's kitbag. It may be achieved via an exchange rate; or it may be achieved via a set of control conditions qualifying which units may be exchanged and when.

This area of action research and analysis is central to the development of the LQN conceptual model, because a 'companion currency' (or currencies) is needed to achieve the legitimate store of value function which falls outside LQN's design. Feasta's provisional thinking here is that such a companion currency might be based on energy bonds.

Douthwaite's view was that backing, for an exchange currency, is like the trainer wheels on a child's bicycle.[4] It is needed to get the currency rolling but can be discarded once momentum is established. The initial source of such backing for LQN was envisaged to be local authority sponsorship and acceptance of the currency in payment of rates and charges. Other models - including commercially sponsored currencies - are being explored.

Design Objective #2: relocalisation

Much of the creative thinking about Designer Currencies is set against an agenda of rebuilding local economies. This line of action is engendered by local experiences of centralised supply chains and the perceived leeching of local wealth into the centre, combined with the search for an elusive 'local distinctiveness'[5].

Certainly, the publication of local directories (often online) can alert users to the existence of local supply of which they were unaware, and this can trigger a certain amount of substitution of supply. But the core problem here is that as local economies have been progressively undermined over many years, alternative local supply may simply not exist.

In this context therefore, the Feasta Currency Group believe that the documentation of local economic circuits, (via data visualisation and other techniques) is an important by product of local currency projects, providing collateral for meaningful local economic development initiatives.

Design Objective #3 : behaviour change

Relocalisation is a special example of what may be termed a 'behaviour change' objective. The sought behaviours may be 'pro-currency' (actions likely to accelerate the usage or acceptability of the currency); 'pro-local' or 'pro-value' (supporting a defined value set). Mechanisms comprise rewards/ incentives and penalties.

The design of rewards offers an opportunity for embodying the values driving the currency. Rewards can be given in the form of additional currency subject to inflation-management. Penalties, for an exchange currency, can legitimately include demurrage (that is a form of negative interest to discourage hoarding), though implementing this feature in an immature currency may be problematic,

and doing so retrospectively in an established currency will imply a change of terms and need careful introduction.

This set of objectives offers an exciting opportunity for building communities with shared values through the means of exchange. A key challenge here is in the definition and subsequent validation of sought outcomes, which in turn implies a governance responsibility and a proper trust in the management and ongoing design of the currency.

It also permits the currency designer to define some transactions as more valuable than others. For example the transactions of the financialised economy may be considered inferior to those of the real economy; and within the real economy 'stuff of life' transactions (food, shelter, energy) may be preferred via incentives.

Connecting currencies

Just as Black Velvet is a good way of ruining Guinness and champagne by combining them, so the connection of currencies should be approached carefully, and with due consideration of the rationale. Work on currency exchanges has tended to focus on the technical operation of the exchange, whereas the key issues are around the compatibility of value-sets. Often analysing this compatibility is not straightforward because value sets may be implicit rather than explicitly stated and therefore require extraction and discussion.

The Feasta team encountered an enlightening example of this in 2010 when we were engaged to look at the potential for green loyalty and timebanking in South Dublin. The loyalty element, grounded in a commercial loyalty framework generated pure financial value, but this value, when introduced via exchange to a timebanking operation, potentially crowded out the timebanking value set. The danger was that timebank participants who had previously been content to exchange hours began to put a cash value on their 'time-in' with a real threat to the solidarity of the timebank operation.

In general, currencies should not be connected just because they can be. The rationale is likely to be either to increase the scale of operation or to provide a diversified function. The former is often tempting as an apparent way to reel in a wider range of goods or service providers, or in search of economies of scale. It carries a risk of loss of identity and may fail to meet expectations. The latter may, as we have seen, compromise the currencies' respective core values.

Scalability and international monetary reform

The potential for scaling-up designed currencies to a national or international level of operation is likely to be as much about realpolitik as fit-for-purpose design. Influencing policy makers can be a frustrating, time consuming and thankless business, and tends to appeal to rather different animals than currency activism.

However, understanding money systems and the need for monetary reform is getting much more air-time than previously, and discussion is beginning to escape the 'funny money' pigeonhole. Initiatives such as Positive Money[6] and Sensible Money[7] are gaining advocates.

The big question seems to be - 'why do governments continue to subcontract the issuance of money to self-interested and socially amoral banks?'

The answer seems to be a combination of government mistrust with a rose-tinted view of the efficacy of uninterfered-with markets. If that is the case, maybe, after we point out gently (as Stiglitz and others are doing) that perfect markets don't exist outside of computer models, we should be exploring the nature of a government/ banking partnership that is genuinely sustainable. By redrawing the roles and responsibilities, the checks and balances, we may achieve monetary reform.

The activist view though is that change will come from the ground upwards, not from Bilderberg downwards.

Its deja vu all over again

Just as in the 1930s there are large numbers of clever and committed people working on currency alternatives and monetary reform. Many of the tools of the currency designer were 'invented' in the 19th century. We have been here before. So how come we still have dysfunctional systems? And are we doomed to repeat history, reverting to 'business-as-usual' after a period of zombie flatlining?

Nobody knows the answer to that, but there are two major differences between the situation in the 1930s and now that may give us a perverse hope. One is the wide availability of the Internet; the other is the clear and present danger of imminent converging environmental crises.

The Internet enables ideas to be spread quickly, interest groups to be formed quickly, co-operative work to be undertaken by dispersed individuals, currency operations to be run in the cloud at low cost. Peer to peer working can avoid the inbuilt design of a central weak point. If establishment attempts to bring this anarchic and uncontrollable activity to heel can be resisted, successful currency initiatives will be much harder to suppress than in the 1930s.

At the same time, the converging crises of peak oil and energy descent, climate change, population and environmental degradation are becoming more apparent in our everyday lives. Systems have to be reinvented anyway. And each reinvention will carry with it opportunities for currency redesign.

We must hope, and intend, that these factors are sufficient to disrupt any intransigent vested interests and facilitate the redesign of current dysfunctional and over-complex systems. If not, our children may be disappointed in us.

References:

- [1]: <http://www.facebook.com/groups/designercurrencies/>
- [2]: <http://www.feasta.org/documents/moneyecology/>
- [3]: Richard Douthwaite. Personal communication 2010
- [4]: Ibid
- [5]: <http://www.commonground.org.uk/>
- [6]: <http://www.positivemoney.org.uk/>
- [7]: <http://www.sensiblemoney.ie>