

Money hypothesis 2; a different concept of money

by Paul Grignon, the creator of the *Money as Debt Trilogy* animated movies.

Abstract

This article will explain the concept of money as time-limited redeemable credits for the real goods and services it will be used to purchase. This money's value is defined by the specific portion of real world abundance it promises, not the scarcity of the medium of exchange itself. I then provide an outline of how this alternate concept of money can be implemented in our current situation to produce a liberated, self-balancing global money and economic system, a system that can adapt to inevitable periods of economic shrinkage without causing unjust hardship and without passing debt on to future generations. Focusing on mortgages for real estate, the current primary source of money, I show how this self-issued credit money system has the potential to beneficially transform human economic relationships, in addition to ending money system instability. The article concludes by proposing that this alternate concept of money could very easily become a liberated global money system. In fact, the process is already underway.

Hypothesis

The current concept of money as a thing-in-itself and especially as a debt-of-itself is mathematically incompatible with a credit-based economy as demonstrated in my previous paper, *Money hypothesis 1; why our current money system is unstable*. The appropriate replacement is self-issued credit, or "barter credit", money that is payable in goods and/or services only. This money can be universally described as a "promise of something specific from someone specific", a concept of money that has always existed as an alternative to "money-as-a-thing-in-itself".

Money could be defined in value by its redemption in real things

In this concept, all money is redeemable in real goods or services *only*, within a specified time. Therefore the holder of money has actual ownership of current or future goods or services from a specific supplier, *measured* in a common value unit called "money".

Money is thus no longer a thing-in-itself in limited quantity, like gold coins, dollars or euros. Instead, money is a claim on the value measurement or “dollar’s worth” of the real things to be produced and traded using the money system. The final creditor is the credit-issuer’s customer who gets the best price (creditor dividend) by using the issuer's credit to buy real things from the issuer. Like a conventional bond, the credit matures at the date its issuer set. If unredeemed after a grace period, the credit expires. Therefore, because all money is created as redeemable credits, it has true velocity, both an overall speed (lifetime) and direction (redemption by specific issuer). Because it has true velocity, all money-creation credit cycles extinguish themselves on time, leaving no legacy of debt. Money as barter credits is defined in value by what is promised. It doesn’t matter how many credits there are in the universe, or what an overspending government is doing, a promise of a product or service is defined by the real things delivered by the issuer of the credit, nothing else.

Money as a value unit could be defined by agreement

To have a stable value unit, a new one is required because national currencies will continue to devalue. I propose that for now, the new inflation-resistant value unit could be the US dollar value of a fixed basket of essential world commodities, specifically the Rogers International Commodity Index (RICI). The new value unit would always buy the same basket of 38 essential world commodities in the global market *by definition*.

Improving on the index to make it more representative would be economic science, and probably politics, of the future. Eventually, the very stable new value unit would be even more ingrained in our understanding than fluctuating and devaluing national currencies are now. Definition in terms of national currencies would no longer be necessary. By agreement, already existing self-issued credit systems like business-to-business barter networks could voluntarily adopt this as an alternative inflation-resistant global value unit at any time. A whole new system is not required to do so.

An auto-correcting system would be possible

The simplest application of the value unit would be to value all credits at par at all times. This would be suitable for networks with a lot of mutual trust, but problematic on the

scale of international corporate trade. In the “big” economy it would be possible to enforce balance-of-trade by automatically re-evaluating credits in real time according to a very simple formula, the current volume of buy orders divided by the current volume of sell orders, as a moving average. The volatility of the results could be controlled by adjusting the time span of the averaging. Overspending relative to sales would sink the issuer’s credits below the value unit (under par). Underspending relative to sales would push the issuer’s credits above the value unit (over par). At all times the issuer must honour its own credit at par. This simple math enforces full flow and balance-of-trade for all issuers of credit. Under par credit restricts issuer spending. Over par credits transfer potential profits to the issuer’s customers rather than the issuer. Issuer’s profits are only gained by *spending* them to keep the value of the issuer’s credits at par. Therefore, there are no money profits, and no expansion of money profits by lending profit money at interest. Full and immediate flow of purchasing power back into the economy is automatic.

Voluntary acceptance would create spontaneously generated networks

Money as barter credits is private credit. It is not legal tender. Therefore, no one could be forced to accept any barter credits. And all barter credits would have to be rejected by default. The result would be that, while using the same technology and value unit, unique credit circulations could exist globally or locally, at any scale, each defined voluntarily by whoever wants to buy from each other.

Banks would become brokerages and functional credit ratings agencies

I envision that, although one could do the necessary trading from one’s own computer, most people would subscribe to credit brokerages that would deal in proven, reliable and possibly insured, credits. These brokerages would ensure maximum value and security for their clients in exchange for fees. Because most of the brokerage function would be highly automated, fees would be low, being primarily charges for performing due diligence to evaluate the reliability of credit issuers. If required by law to be paid in precisely the same credits as acquired for their customers, such brokerages would, in their own self-interest, perform the role of honest credit ratings agencies. In the best interests

of society, brokerage should be a competitive industry and anonymous trade information should be made public in real time.

Savings would have to be spent or traded

Mature credits have to be used to purchase goods or services from the issuer or the credits expire by a set time. Therefore, mature credits held as savings would need to be constantly traded to those who want to spend them in exchange for the newest possible credits to be saved. To illustrate, imagine a wage-earner is paid in his employer's credit. This is new credit with maturity perhaps 6 months or a year away. To buy a new refrigerator at the lowest possible price now, he wants to trade for the refrigerator manufacturer's mature credits. Someone who has these maturing refrigerator credits as savings is eager to trade them for any reliable new credit with maximum shelf life. The role of brokerages would be to make every necessary trade happen to the best advantage of their clients, themselves, the issuers and by extension, the economy. The process of constant trading would generate anonymous consumer preference information that would aid in matching production to demand, eliminating excess production and wasted resources. The great majority of this trading would likely happen at the wholesale level. Credits from producers would be exchanged between distributors to buy production.

Government would create only its own credit money, some as legal tender

Because taxes are enforced by law, governments at all levels would issue credit, payable in taxes, and acceptance of this credit would be universal within that government's tax jurisdiction, and probably in a much wider sphere as well. Part of this credit would circulate as legal tender cash always at par, just as today, so that not everyone has to participate in the online electronic money system. To keep the government credits at par, taxes would have to equal spending, just as sales revenue would have to equal spending for private issuers. Balance of trade is automatically enforced.

Adapting to the change

The use of legal tender paper cash payable for taxes would continue, and the user experience of dealing in digital barter credits would differ little from today's point-of-sale

and online banking interfaces. But otherwise, there could be significant changes in how things are done. Two examples below illustrate how fundamental the functional changes could be.

Mortgages

Long term creditor-debtor relationships could be replaced by partnerships, and partnership interests could be traded. As an example, let us look at a construction company. Instead of borrowing from a bank to build houses, a builder would spend claims against its finished houses as money. The builder's sole obligation would be to build marketable houses on time to satisfy customers, not return bank promises to a bank on a rigid schedule. Instead of borrowing from a bank, the buyers would enter partnership agreements with the builder and gradually buy out the builder's share with the same credits that the builder issues to build more houses. The buyer would be the active partner for as long as the terms of the contract were honored. Because there would be no rigid bank repayment schedule with interest accumulating, those terms could be as flexible as the participants find useful. Subsequent buyers would buy into the partnership and become the active partner in turn. Investment firms would arise to buy out partnership interests at a discount, allowing builders and buyers to exit with a voluntary loss. No one would ever lose any equity otherwise. Everyone would always be bought out, never foreclosed on. Partnership exchanges would help people relocate, swap or share homes.

Full employment and technological displacement

All issuers of credit would rely on their customers being able to earn their credits on time to purchase from the issuer. Henry Ford recognized this principle of successful capitalism when he paid his workers three times the going wage so they could buy the cars they were making and grow the industry. In this new system, the issuer must spend all profits in order to realize them, ensuring that this credit is immediately recycled into circulation and earn-able by prospective customers. A profitable issuer could defend the parity of its credit by full employment, employee bonuses and charitable spending. However, lavish spending by executives and shareholders would also return the credits to circulation. This inherent principle, taken to its logical extreme, requires an issuer to provide the full

purchasing power to its customers, one way or another, even if the costs of production are zero. In this way, technological displacement of labour does not result in insufficient purchasing power to clear production. Quite the opposite, it requires sharing the benefits of technological replacement with the potential customers, without any resort to forced governmental redistribution of income.

Conclusion

Is any of this practical? Yes. And it is already happening. Technologically sophisticated business-to-business barter systems exist, are rapidly growing and are actively seeking to connect by means of global standards. The credits issued in these systems are redeemable in real products and services. The credit worthiness of any given business-to-business barter credit is vetted by the brokerage to which any given issuer belongs. In a recent report to the City of London, (1) the traditional banking establishment is advised to recognize this business-to-business barter credit as the “source of liquidity” of the future and establish themselves in the “capacity credit” (as they call it) brokerage business.

Excerpt: “Multilateral reciprocal trade seems widespread, though comprehensive data is sparse. According to the International Reciprocal Trade Association (IRTA), one of the industry trade bodies, some 700 retail barter exchanges exist as of 2009/10, most located in North and Latin America (IRTA, 2010). Regularly quoted figures state that countertrade accounts for 20% or more of world trade, involving some 90 countries and accounting for US\$100 to US\$150 billion (Platt, 1992; Carter, 1997)”

Fundamental problems require fundamental solutions. My simple design is founded on using the aforementioned business-to-business barter credits as money in *general circulation*. (2) The potential result is an inclusive and nurturing economy, using money created directly by productivity and demand. It is a system designed to be self-disciplining, mathematically stable, socially just and supportive whether the economy is growing or shrinking.

About the Author

Paul Grignon is a professional artist, writer and moviemaker with a partial university education in physics and chemistry. The author has extensive experience in independent research and explaining to a general audience environmental and political issues as diverse as energy return on energy invested, municipal zoning bylaws, and the science of island groundwater. His 14 years of self-directed study of the monetary system and economics have resulted in the Money as Debt Trilogy, animated cartoons that have been viewed by tens of millions of people worldwide, in 24 languages, and are widely praised for making our money system understandable.

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