



August 2017

Let a Thousand Currencies Bloom

An Interview with Bernard Lietaer

The monetary system is implicated in many of today's social and environmental problems.

International monetary expert Bernard Lietaer discusses how to design a better system with Allen White, Senior Fellow at the Tellus Institute.

You are well known as a monetary reformer. What led you to study and then rethink the money system?

As a graduate student at MIT in the late 1960s, I was interested in the application of systems theory to international finance. My thesis, published by the MIT Press in 1970, described how a corporation operating in many countries could optimize currency management. It explained, among other things, how a corporation could best address “floating exchange,” an arrangement, at that time limited to a few currencies in Latin America, in which a currency’s value fluctuates based on supply and demand in the market.

The year after the publication of my thesis, President Nixon took the United States off the gold standard, initiating a global shift to the floating exchange that was once a rarity. My research became extremely valuable, and a major US bank negotiated the exclusive rights to my methodology.

I was in management consulting at the time, and my contract with the bank required that I work in a different field for at least five years so that I wouldn’t share my methodology with the bank’s competitors. I took a job advising the largest mining company in Peru and then, after it was nationalized, the Peruvian government itself, where I developed computer models to maximize hard currency earnings. From there, I went back to the Ivory Tower as a professor of international finance, then into the world of central banking via the Central Bank of Belgium. At the Bank, I was tasked with designing the ECU (European Currency Unit), the predecessor to the Euro. Later, after serving as the president of Belgium’s Electronic Payment System, I left government and worked as a currency trader.

Each step in my journey forced me to think about money in a different way: to shift from the perspective of a multinational corporation to that of a developing country to that of an academic to that of a central bank to that of a currency trader. This diversity of perspectives opened my eyes to the merits and flaws of different monetary systems.

How would you describe the prevailing monetary system today?

Today's monetary system is characterized by a monopoly of scarcity- and debt-based national fiat currencies. Let's break that down.

In the modern economy, money is inextricably linked to taxation. The government defines money by choosing what it will accept as payment for taxes, and then citizens must work, trade, or invest to obtain that money to pay such taxes. Since the abandonment of the gold standard, national currencies have been "fiat" money. "Fiat" here refers to the first words that God spoke in the Latin version of Genesis: *fiat lux* ("let light be"). In other words, fiat money gains its value simply by virtue of government decree.

Money comes into existence when banks lend. When a bank provides you with a loan or a mortgage, it creates the principal, which you spend, allowing it to circulate in the economy. The bank expects you to pay back not only this principal but also a certain amount of interest to cover the risk involved in providing the loan. However, the bank does not create any new money for this interest. Instead, it, in effect, sends you into the world to battle everyone else to secure the money required. "Bank-debt money needs to be scarcer than its usefulness" is a quote from monetary economics textbooks. By nature of its creation process, bank debt money generates scarcity and competition among its users.

I do not think that greed is necessarily ingrained in human nature: it may be cultivated in part by this system of scarcity and competition. But it does not have to be this way. Since money and monetary systems are ultimately social constructs, we can design a monetary system better aligned with our goals on the national and global level.

You have faulted the current monetary system for contributing to growing inequality, environmental degradation, and the erosion of social capital. How does it do so?

Money is not a neutral and passive medium of exchange, as is generally assumed. It exerts a major influence on human behavior. We design the monetary system, and it, in turn, shapes us, our behavior, and our social relations. The current design incentivizes behaviors antithetical to social and environmental well-being.

For example, our system of debt-based money creates pressure for economic growth because borrowers must secure additional money to pay back the interest on their debt. And the payment of interest with debt-based money, in turn, leads to a compounding of interest, which tends to foster exponential growth. However, such exponential growth in economic output is impossible in a world of finite natural resources. Moreover, bank-debt money can be described as

an extraction process whose net effect is that money flows to those already at the top, thereby increasing wealth disparities.

Social capital depends on trust, solidarity, and cooperation. These sensibilities are built through voluntary acts of sharing and generosity, such as helping a neighbor or mentoring a student. The monetization of all human transactions promotes the selfish, non-collaborative behaviors that erode community cohesion and, thereby, social capital.

Many of our readers are familiar with the problems caused by monoculture in agriculture. Is monoculture also a problem when it comes to money?

Yes, and some of the deepest thinkers in economics, dissatisfied with the failures of neoclassical orthodoxy, have looked to natural systems for new ideas and new solutions. Biologists and complexity experts have shown that the long-term sustainability of a complex flow network depends on having the right balance between efficiency and resilience. Efficiency refers to the network's ability to process a volume of flow per unit of time in an organized fashion. Resilience refers to the network's ability to cope with change while preserving its integrity. Both of these depend on the same two structural variables—diversity and interconnectivity—but in opposite ways. Efficiency is maximized by reducing diversity and interconnectivity, and resilience is maximized by increasing them. The current economic system puts too much emphasis on efficiency at the expense of resilience. The result is a focus on—some would say obsession with—GDP growth that tallies all economic transactions equally even when they are socially and/or environmentally harmful.

As is the case in agriculture, a monoculture in the money system increases risk. We've seen that play out in the crises of the last few decades. Since 1970, there have been 145 banking crises, 76 sovereign debt crises, and 208 monetary crashes around the globe. And if the current system continues to prevail, we'll see many more.

You have argued for breaking up this monetary monoculture through the use of complementary currencies. How would that work?

Let us start by clarifying what money *is*: an agreement, within a community, to use some standardized item as a medium of exchange. There is no need to use just one medium. Complementary cooperative currencies can exist alongside our dominant competitive and national currency systems. These currencies could be managed by members of a community, a nongovernmental organization, or business network with the aim of linking unused resources with unmet needs.

A commercial example familiar to most people is frequent flyer miles: they connect the unmet need for airlines of customers' loyalty with an unused resource, namely, an empty seat on a

flight. Whenever there is an unmet need in an economy and an unused resource—and there are many—the two can be linked with a currency. Today, there are approximately 4,000 mature cooperative currencies in operation around the world.

These currencies need not be interest-bearing; indeed, some of them incorporate “demurrage,” a time-related charge for holding onto this currency, which creates an incentive to keep it in circulation. Currencies with demurrage do not contribute to the concentration of wealth and tend to foster a greater sense of community.

Have you witnessed the success of complementary currencies on the ground? If so, what are some examples?

The most frequently used cooperative currency system in the world today is the Local Exchange Trading System (LETS), which was invented in the town of Courtney outside of Vancouver in the early 1980s. After a defense base in the town closed, the formerly middle-class town experienced an economic slump, with unemployment rising to 40 percent. But the town still had many unmet needs and a large unused resource in the form of a skilled labor force willing to work. What was missing was a link between the two: that’s what LETS provided. And it has proven to be a great success, encouraging people to use skills they might not have considered valuable (such as cooking, teaching English, or web designing) and giving access to services to people who in the past may not have been able to afford them.

Time dollars provide another example. This system was created by Edgar Cahn, a former speechwriter and counsel to Robert F. Kennedy. The time dollar is equivalent to one hour of service and can be spent on services within a given community, where everyone’s time has equal value. Today, approximately 300 TimeBanks operate in the US and another 300 in the UK, and time banking has spread to almost three dozen additional countries worldwide.

Or consider the *Chiemgauer* system in Bavaria. Regional nonprofit organizations that wish to participate purchase *Chiemgauers* for their members, at a rate of 100 *Chiemgauers* for 97 euros. The *Chiemgauers* can then be used to purchase goods and services in participating stores. As the *Chiemgauers* are a demurrage currency, people are incentivized to keep them in circulation, rather than hoarding them. Currently, there are 600 participating businesses, and more than 500,000 *Chiemgauers* in circulation.

Torekes, a currency I helped design, illustrate how complementary currencies can foster greater community. *Torekes* are in use in Rabot, an immigrant district in the Belgian city of Ghent and the poorest community in the region. We asked residents what they wanted and found that those living in the high-rises dominating the district wanted access to a few square yards of land for gardening. The city had land sitting derelict after a factory moved. An unmet need and an unused resource provided an opportunity for a currency to link them. The city decided to rent out the land in small plots, taking payment in *Torekes* (Flemish for “little towers”), which people could earn by participating in various urban improvements and beautification activities. The city also arranged for local shops to accept *Torekes* for specific goods that it wanted to encourage

people to buy, such as energy-efficient light bulbs or fresh, seasonal vegetables. The stores could keep the *Torekes* in circulation or get reimbursed in euros.

How scalable are such complementary currencies? Do they offer a real alternative to the current system?

As I noted before, whenever and wherever there are unmet needs and unused resources, a currency can be designed to link them. Experimentation will be necessary, and when approaching experiments of any kind, and especially social experiments like these, we must be ready to accept failure. Over time, however, the most successful ones will attract the most attention and be replicated. As in any disruptive social innovation, experimentation is essential because we still have much to learn, such as what governance structures are most appropriate for different currency systems. The proliferation of complementary currencies is a testament to human creativity, and I believe they are essential to revamping the prevailing, socially detrimental monetary system.

If the negative consequences of our monetary system are so clear, why haven't they been recognized and addressed earlier?

We suffer from a three-layered collective “blind spot” with regard to our money system. The first layer arises from the hegemony of the idea of a single currency. Many people believe that societies have always created, and indeed must create, a monopoly for a single, centrally issued currency. Monopoly has been the rule in many times and places, but there have been exceptions, and such alternative systems fostered economic stability, equitable prosperity, and a longer-term perspective.

The second layer is an indirect result of the ideological warfare between capitalism and communism in the twentieth century. Although the differences between these two systems have been studied *ad nauseam*, their similarities have not. And among them is a shared belief in a single national currency.

Our institutional framework is the source of the third layer. From the eighteenth century onwards, governance of the money system has been institutionalized through the creation of central banks, which have acted as enforcers of a single currency monopoly in each country.

Multiple forces conspire to keep all three of these blind spots in place. For instance, challenging the hegemony of the monopoly currency puts academics at risk of exclusion from the top conferences and top peer-reviewed economics journals because the gatekeepers in both cases are wedded to the current paradigm. As usual, the costs of nonconformity are high, and the forces of inertia are powerful.

An even deeper obstacle lies in our collective psyche. We are motivated by both greed and a fear of scarcity, both of which lead to an obsessive focus on money, making the issue emotionally charged.

What role can information technology play in facilitating the use of multiple currencies?

Over the centuries, many different forms of “money” have been invented and used. Today, those in use include bank notes, bonds, and corporate equity as well as gift cards, loyalty points, and community currencies. Digital currencies are the latest addition, with Bitcoin, the first *decentralized* digital currency, arriving on the monetary stage in 2009. Bitcoin has been followed by a wave of other digital currencies and digital assets that have raised capital while avoiding the high costs of the usual sale of stock in public markets.

Currently, when changing one type of asset into another, one must rely on an intermediary who profits by matching parties with a coincidence of needs. This reliance on matching creates significant barriers, making it nearly impossible for small-scale currencies to be valued against and thus traded for other currencies at market-determined exchange rates. One breakthrough to address this age-old problem is the Bancor protocol. It is named after the proposal made by John Maynard Keynes after World War II for a supranational reserve currency that is nobody’s national currency. Utilizing information technology innovations, particularly “blockchains” that provide transparent, decentralized records of transactions, the Bancor protocol provides an effective way to provide convertibility and liquidity for small-scale complementary currencies without needing a counterparty or an intermediary.

What role can monetary reform play in achieving a Great Transition?

The current monetary system lies at the root of so many contemporary problems. However, because our system of money is a social construct, we can—and indeed, must—change it. A new monetary ecology that combines an array of currencies at various levels—local, regional, national, multinational, and global—can be at the heart of a Great Transition. Such an approach would open up a whole new range of alternatives that can promote the well-being and resilience of both human societies and the environment.

The complementary currencies already in operation today provide glimmers of hope as well as templates for others to adapt according to the needs of their specific communities. By rethinking money and carrying out experiments to connect unused resources and unmet needs, we can help usher in a new era of sustainable abundance.

About the Interviewee



Bernard Lietaer is an expert in the design and implementation of currency systems. He has worked in this field for more than thirty years in various roles including central banker in Belgium, fund manager, university professor, and consultant to governments, multinational corporations, and community organizations. He is a member of the Brussels Chapter of the Club of Rome and a Fellow of the World Academy of Arts and Sciences, the World Business Academy, and the European Academy of Sciences and Arts. His books on monetary innovation include *The Future of Money* (1999), *Creating Wealth: Growing Local Economies with Local Currencies* (2011), and *People Money: The Promise of Regional Currencies and Money and Sustainability* (2012).

About the Publication

Published as an Interview by the [Great Transition Initiative](#).

Under our Creative Commons BY-NC-ND copyright, you may freely republish our content, without alteration, for non-commercial purposes as long as you include an explicit attribution to the Great Transition Initiative and a link to the GTI homepage.



Cite as Bernard Lietaer, "Let a Thousand Currencies Bloom," interview by Allen White, *Great Transition Initiative* (August 2017), <http://www.greattransition.org/publication/let-a-thousand-currencies-bloom>.

About the Great Transition Initiative

The [Great Transition Initiative](#) is an international collaboration for charting pathways to a planetary civilization rooted in solidarity, sustainability, and human well-being.

As a forum for collectively understanding and shaping the global future, GTI welcomes diverse ideas. Thus, the opinions expressed in our publications do not necessarily reflect the views of GTI or the Tellus Institute.