

Innovative Strategies for Financing Full Employment



Bernard Lietaer

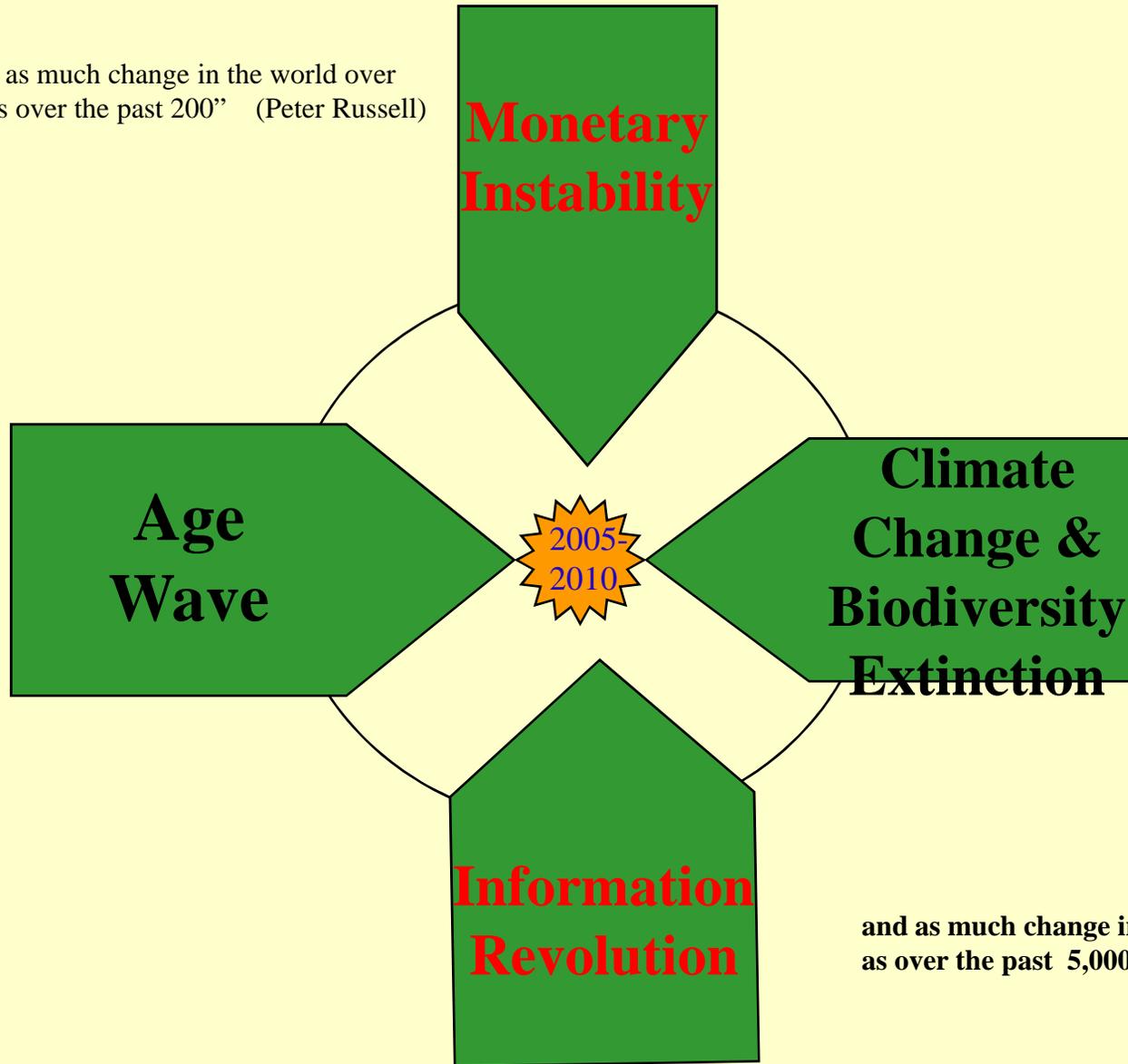
blietaer@earthlink.net

From "Future of Money" (1999)

The Time Compacting Machine

Four powerful human-created mega-trends converge within 10 years,
and need to be resolved within 20 years

"We should expect as much change in the world over
the next 20 years as over the past 200" (Peter Russell)

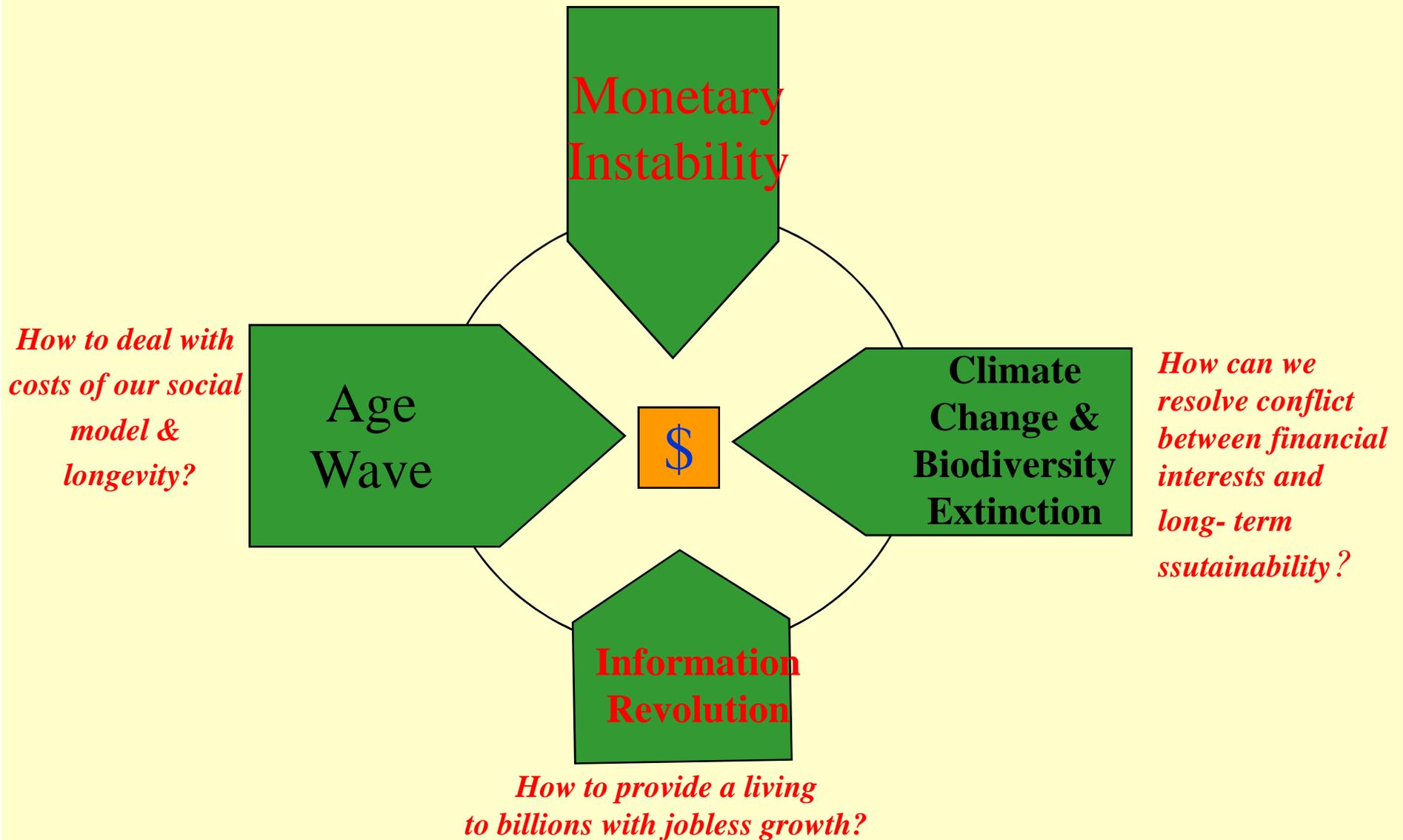


and as much change in consciousness
as over the past 5,000 years...

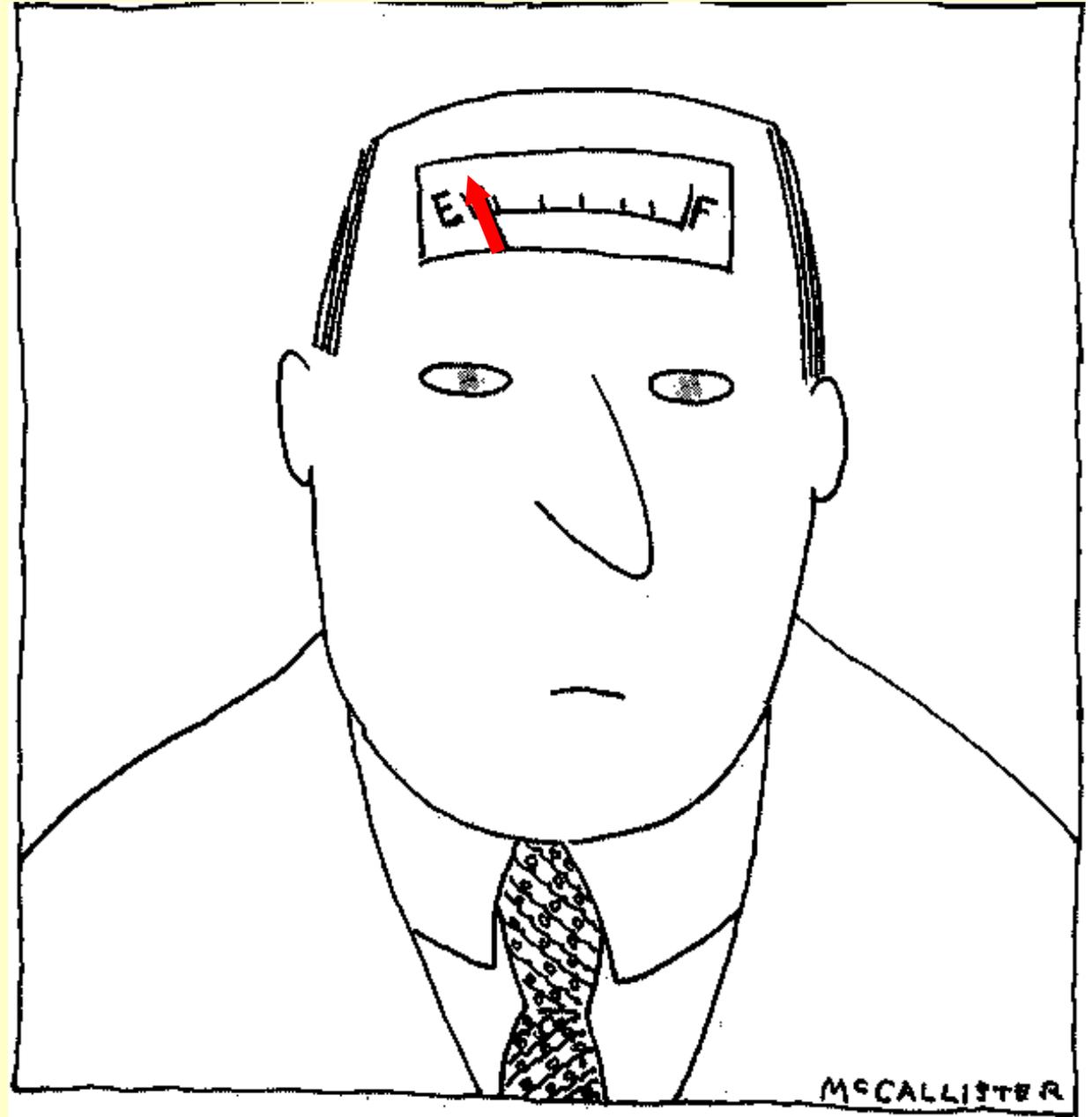
From "Future of Money" (1999)

Money at Core of Time Compacting Machine

How to deal with a global financial crisis?



**Solutions within
existing money
paradigm are
running on “empty”**



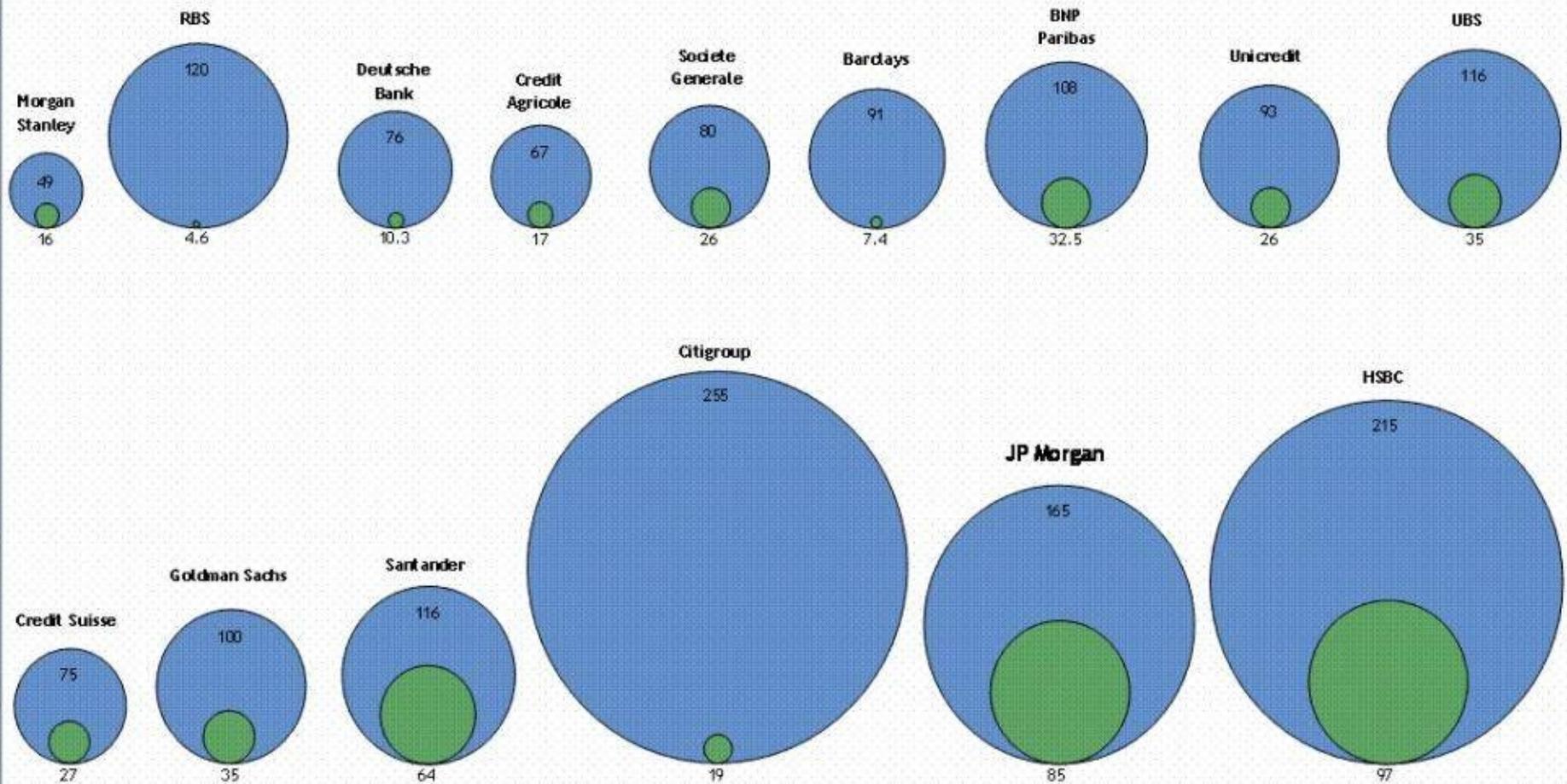


“Never, ever, think outside the box.”

Banks: Market Cap

● Market Value as of January 20th 2009, \$Bn

● Market Value as of Q2 2007, \$Bn

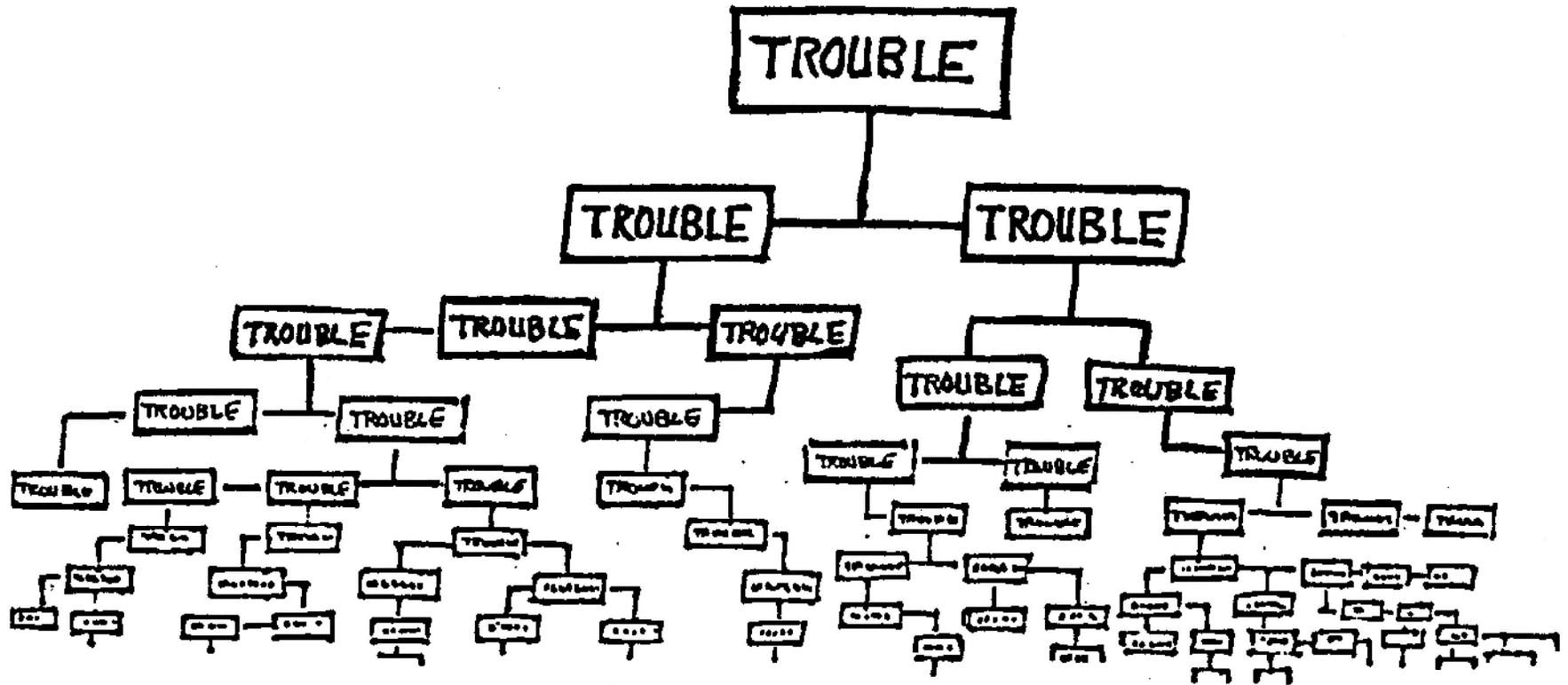


J.P.Morgan

While JPMorgan considers this information to be reliable, we cannot guarantee its accuracy or completeness

Source: Bloomberg, Jan 20th 2009

In short, our global financial system is in...



Why didn't any policy makers, no mainstream media and only very few academics see the crisis coming?

Plan

- Blind Spots
- Systemic Cause
- My Proposal
- Conclusions

Blind Spots

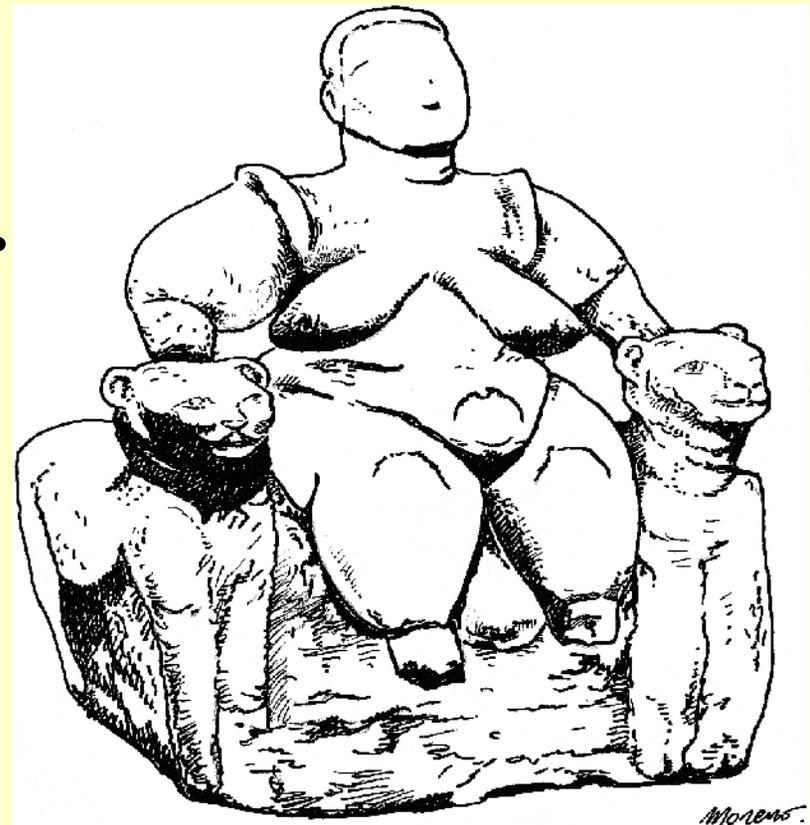
- Is monetary blind spot due to
 - Historical Habit?
 - Ideological Polarization?
 - Academic Taboo?
 - Lobbyocracy?
- Convergence of all the above...

Historical Habit Patriarchal vs. Matrifocal Monetary Systems

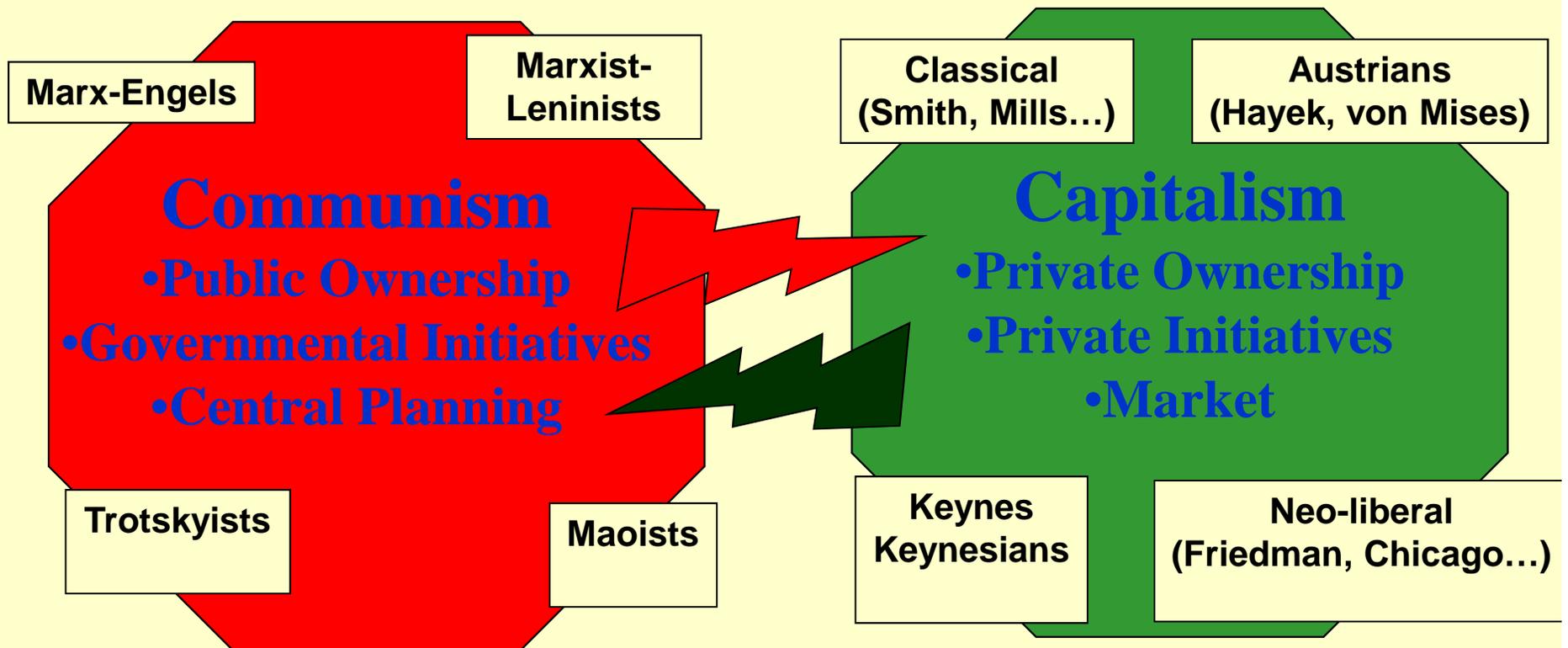
- **Patriarchal Societies**



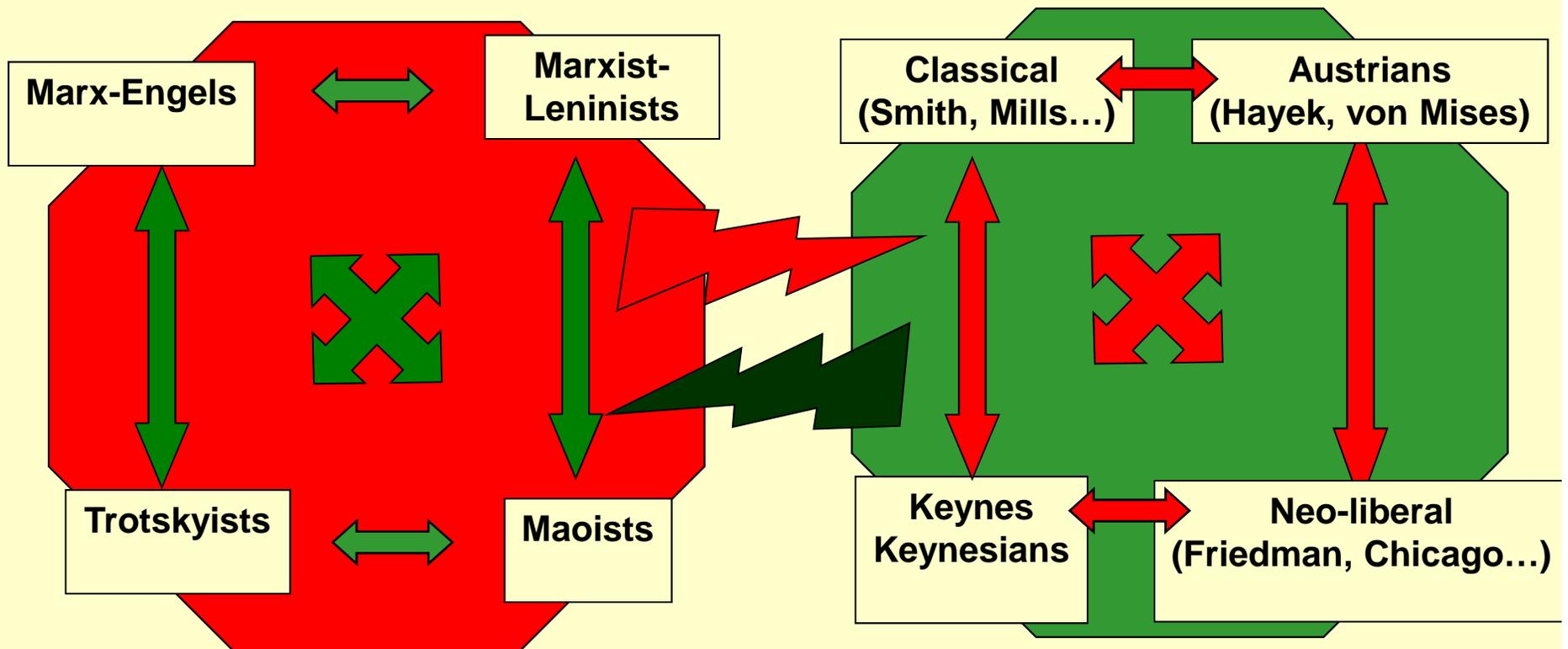
- **Matrifocal Societies**



Ideological Polarization until 1990s

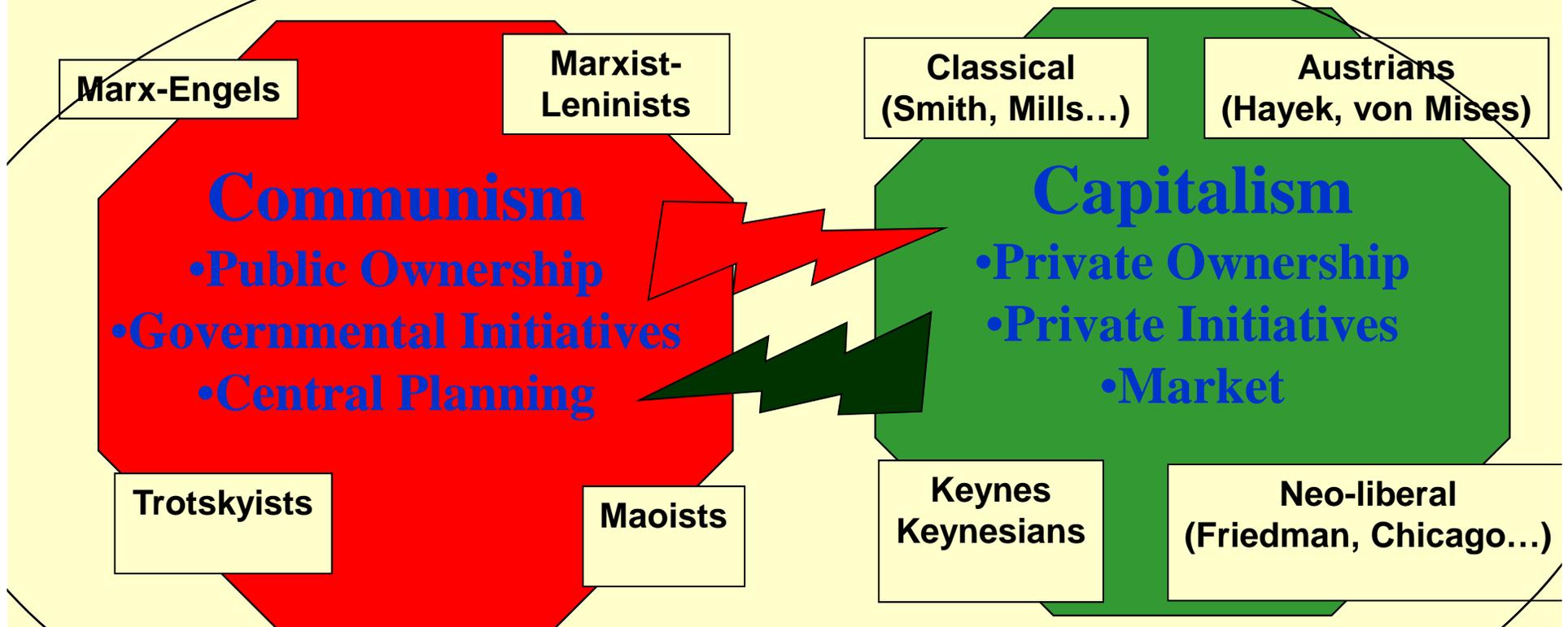


Ideological Blind Spot



Ideological Polarization of Cold War

Hypotheses *Common to all* become blind spots...



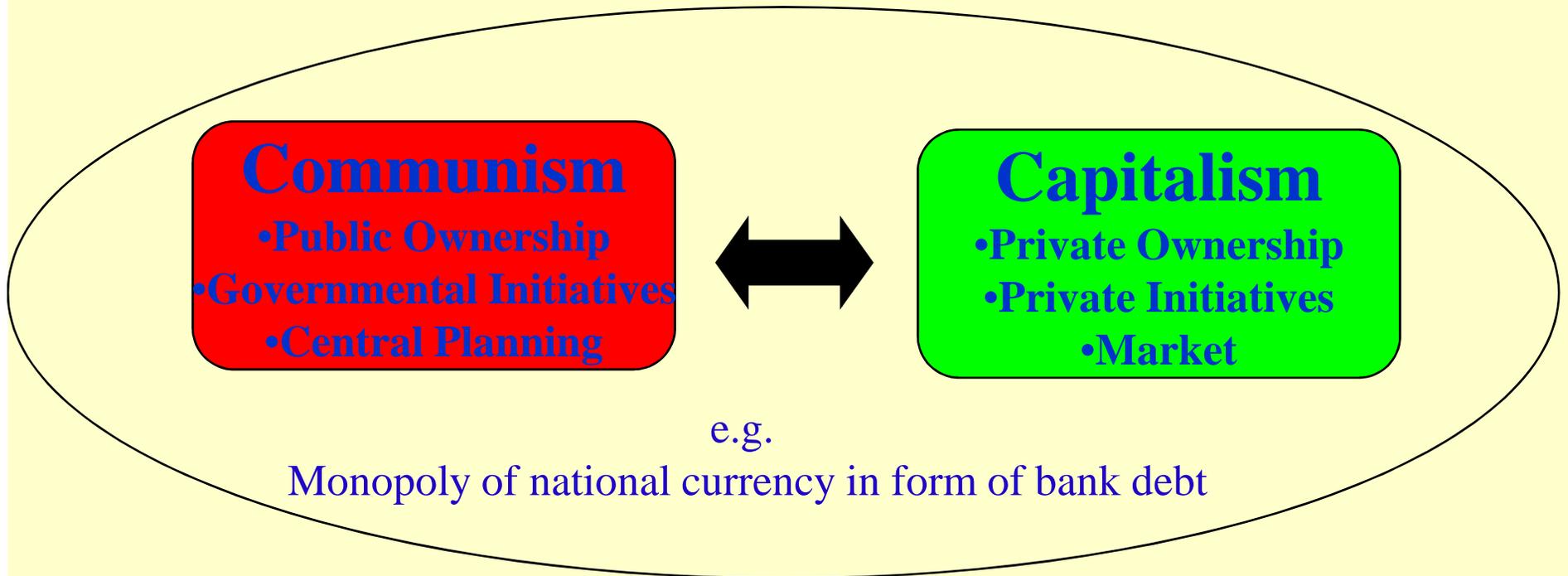
e.g.

Monopoly of national currency in form of bank debt

Blind Spot

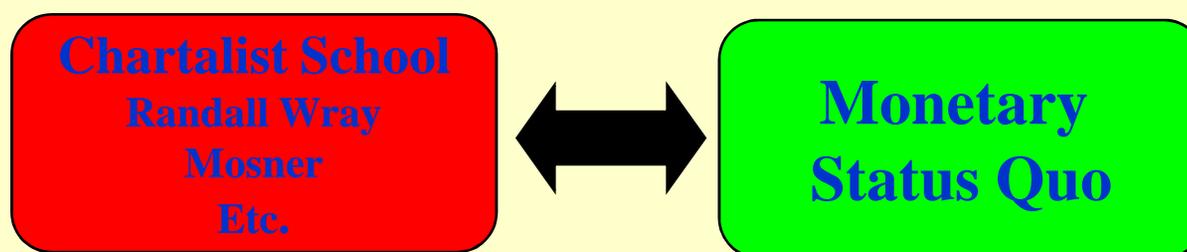
Ideological Polarization of Cold War

Common Hypotheses to both poles become blind spots...



Blind Spot

Academic Taboos



- **Chartalist School shows that**
 - **Need for balanced budgets was valid only under gold standard...**
 - **Under floating exchanges, governments can spend money into existence guaranteeing**
 - **Full Employment**
 - **No inflation**
- **Difference between Nobel Prices for Economics & other five Nobel prizes?**
 - *“Never touch the money system”*

Plan

- Blind Spots
- **Systemic Cause**
- My Proposal
- Conclusions

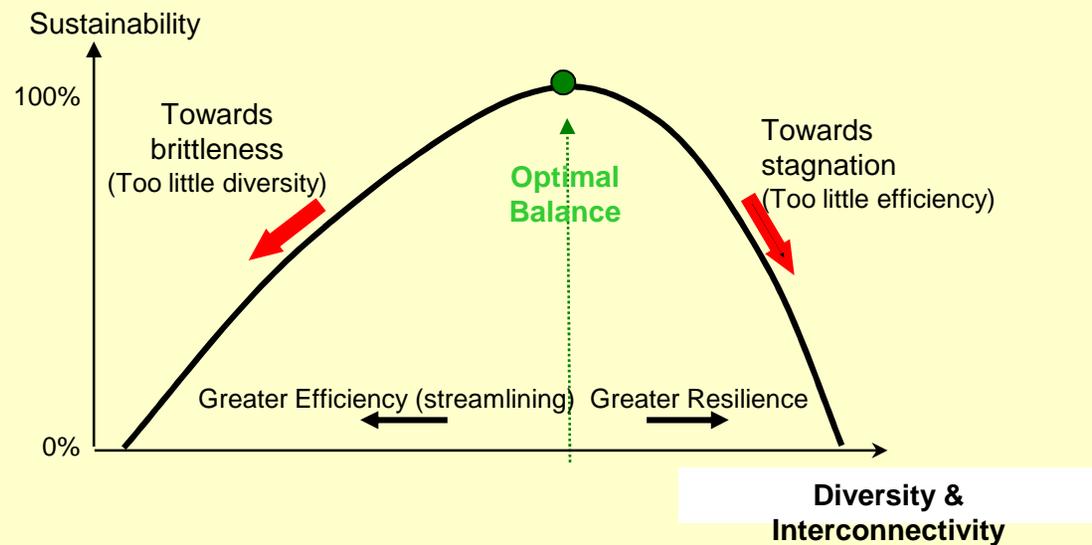
Symptoms of Systemic Cause?

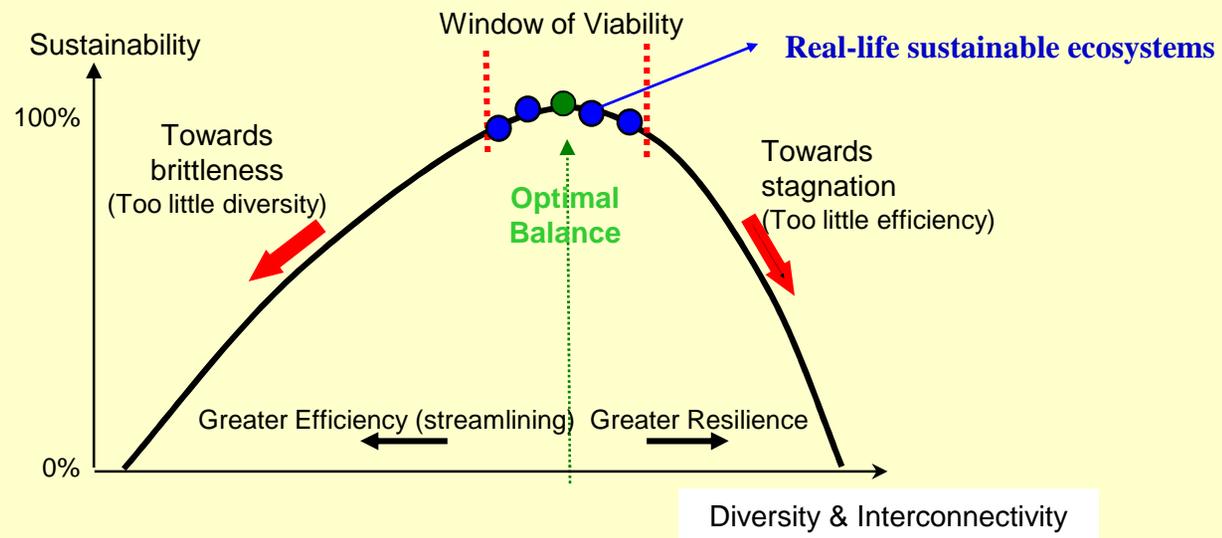
- This is the biggest but not the first such crisis
 - World bank identified 96 banking crises and 176 monetary crises in recent 20 year period
 - Such crises are a remarkably “hardy perennial” (Kindleberger)
 - 48 well documented major crashes between 1637 and 1929.
 - Happened under very different regulatory systems, at very different times, in different countries, at different development levels...
- My claim: financial system is *systemically* unstable
 - “An accident waiting to happen” explains also why huge efforts by very bright and dedicated people (in central banks and private financial system) repeatedly fail to avoid crashes...

Complexity Theory

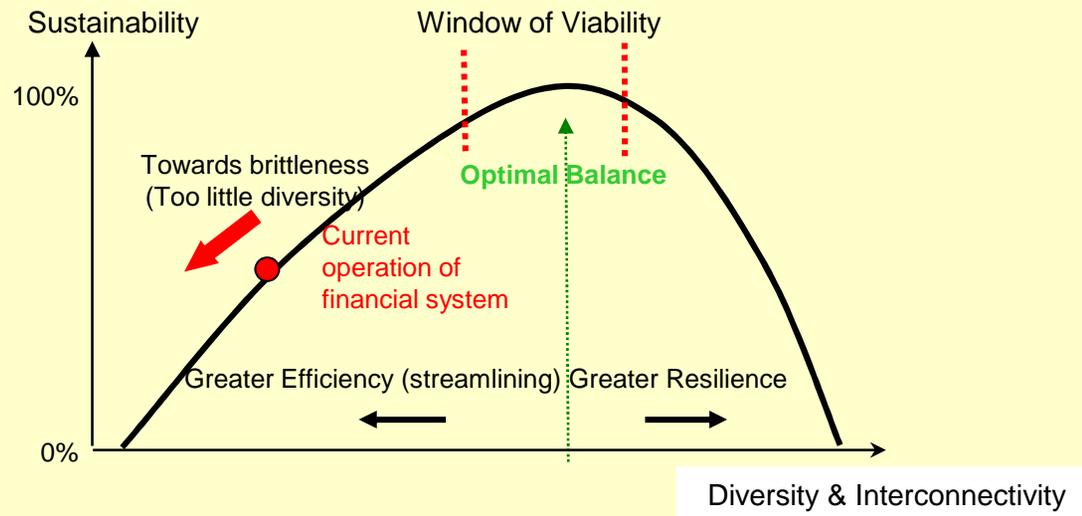
- Robert Ulanowicz: 25 years of quantitative modeling of real-life ecosystems using complexity, information and network theory
- Key finding: Sustainability of any complex network system is measurable with a *single metric* in terms of optimal *balance* involving 2 key variables “*efficiency*” and “*resilience*”
 - Which in turn are a function of 2 *structural* variables: *diversity* and *interconnectivity*
- NB: efficiency and resilience are emergent properties from a network structure are independent from *what* is being processed: *biomass* in an ecosystem, *electrons* in electrical circuit, *money* in an economy...

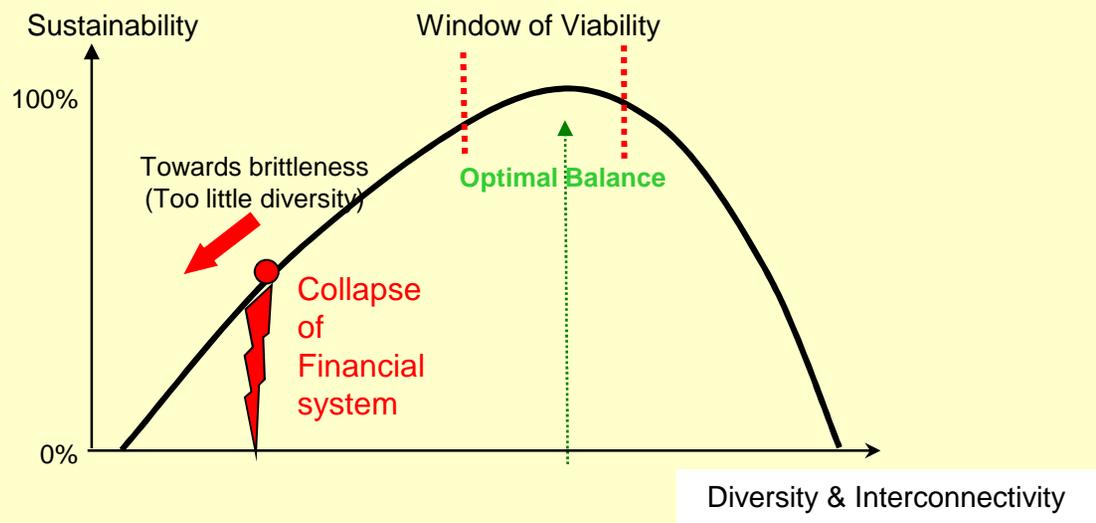
Sustainability in Natural Ecosystems





Application to Monetary System

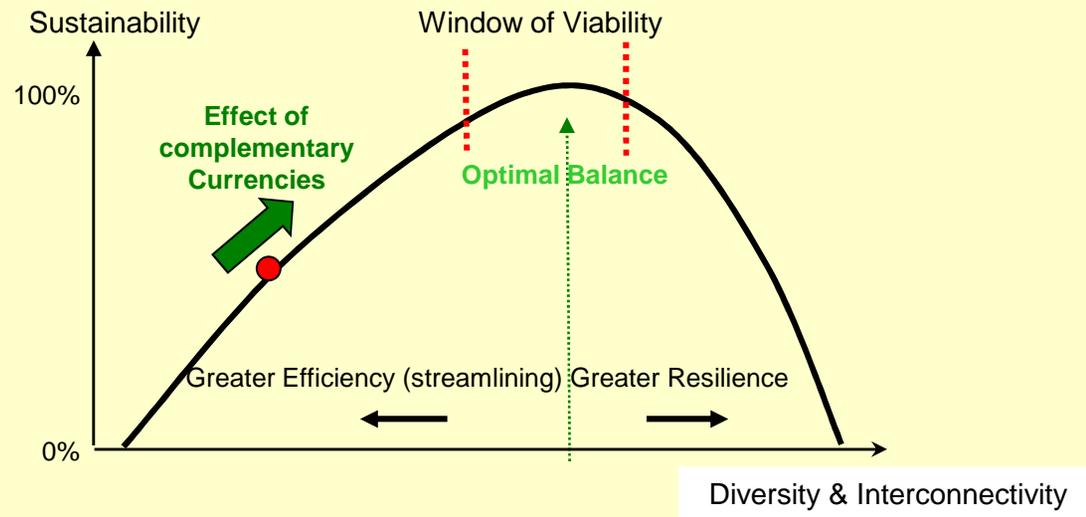




Plan

- Blind Spots
- Systemic Cause
- **My Proposal**
- Conclusions

Systemic Solution



Systemic Solution

- Fact: monopolies of official currencies as medium of exchange have already died
 - Hundreds of thousands commercial loyalty currencies (e.g. miles, “points Carrefour”, etc.)
 - 5000 social purpose complementary currencies operational
 - They all are linking *unmet needs* with *unused resources*
- Part of worldwide evolution from industrial to information development model

One Example: Regios in Germany





Welcome to Time Dollars!

*A new kind of money for rebuilding the Core Economy of family,
neighborhood and community*

Getting Started

An Intro: What Are Time Dollars?

How do they work? Who uses them?

Stories From Time Dollars

Time Dollars in Community

Time Dollars In Community

The soul of Time Dollars is here!

ID's Across the Nation & Overseas

Time Dollar's "extended family"

Values, Theory and Justice

The Values at the Heart of Time Dollars

Theoretical Framework

Time Dollars as a Force for Social Justice

Catch Time Dollars in The News!

Time Dollar News & Views Bi-weekly

ABC News -- TimeBanking in China

NPR Jan 17, 2001, on TimeDollars

The Time Dollar Newsletter

TimeBanks-UK Newsletter

Articles from Magazines, Journals, Newspapers

Create Your Own...

How To Begin/Run a Time Dollar Program

Join the Time Dollar E-group

Time Dollar Materials Order Form

Contacts and Links

Time Dollar White Pages

Links to Other Sites

Contact Us

<http://www.ithacahours.org/>



Fureai Kippu

“Caring Relationships Tickets” in Japan



478 systems operational in Japan
2 national electronic clearing-houses

YAMATO LOVES



My Own Proposals (1)

Social Purpose Currencies

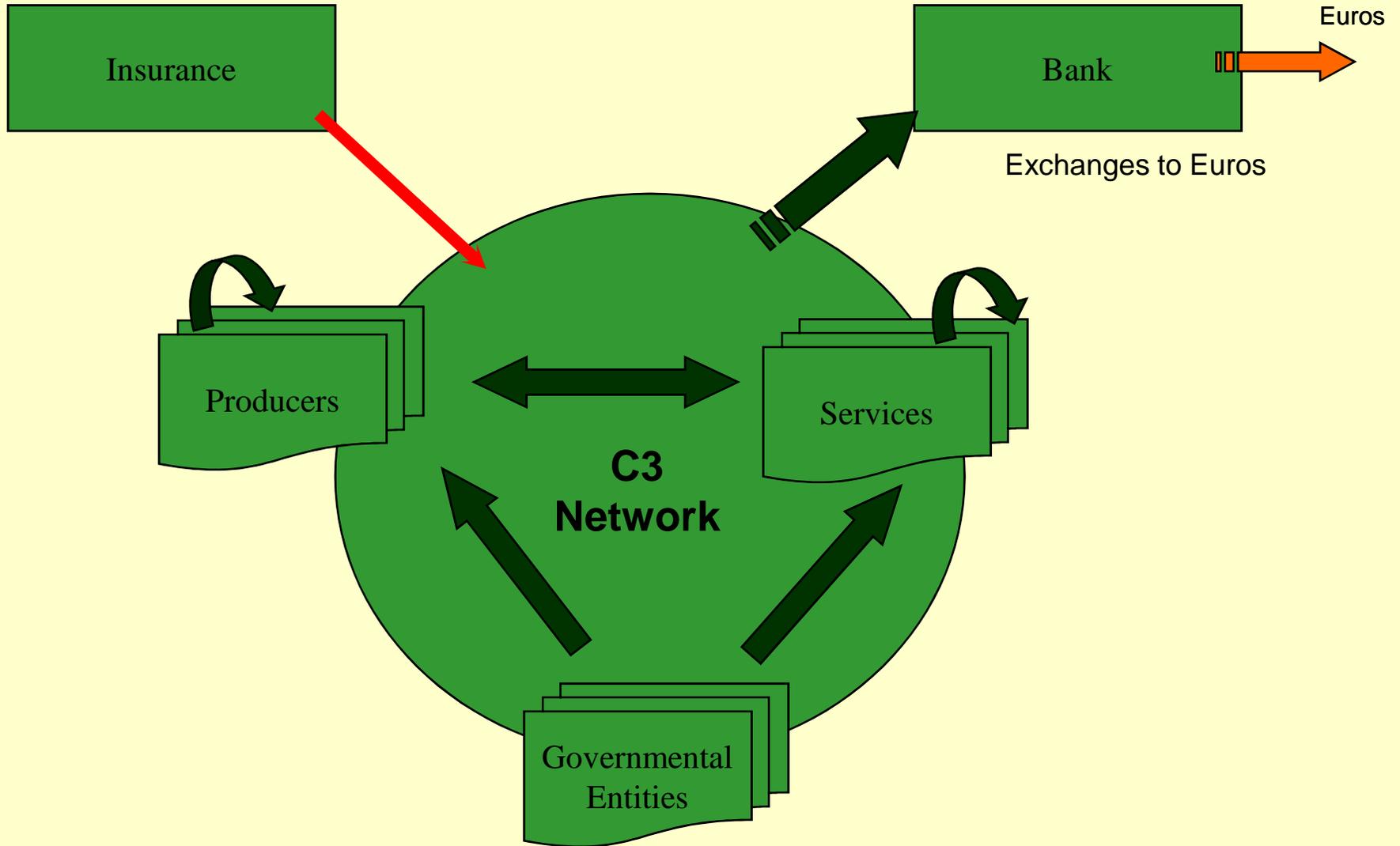
- Introduce integrated payment system for an ecology of social purpose currencies
- Flanders pilot project on-going in Ghent, Belgium
 - Objectives:
 - Induce desirable behavior change while respecting democratic process
 - Obtain more social results with same Euro budget
 - 3-5 social purpose currencies with Belgian ID card + mobile phone
 - Elderly care currency
 - Carbon-reducing currency
 - Learning currency
 - Pilot operational in 2010
 - Generalization to Flanders in 2011-12

My Own Proposal (2)

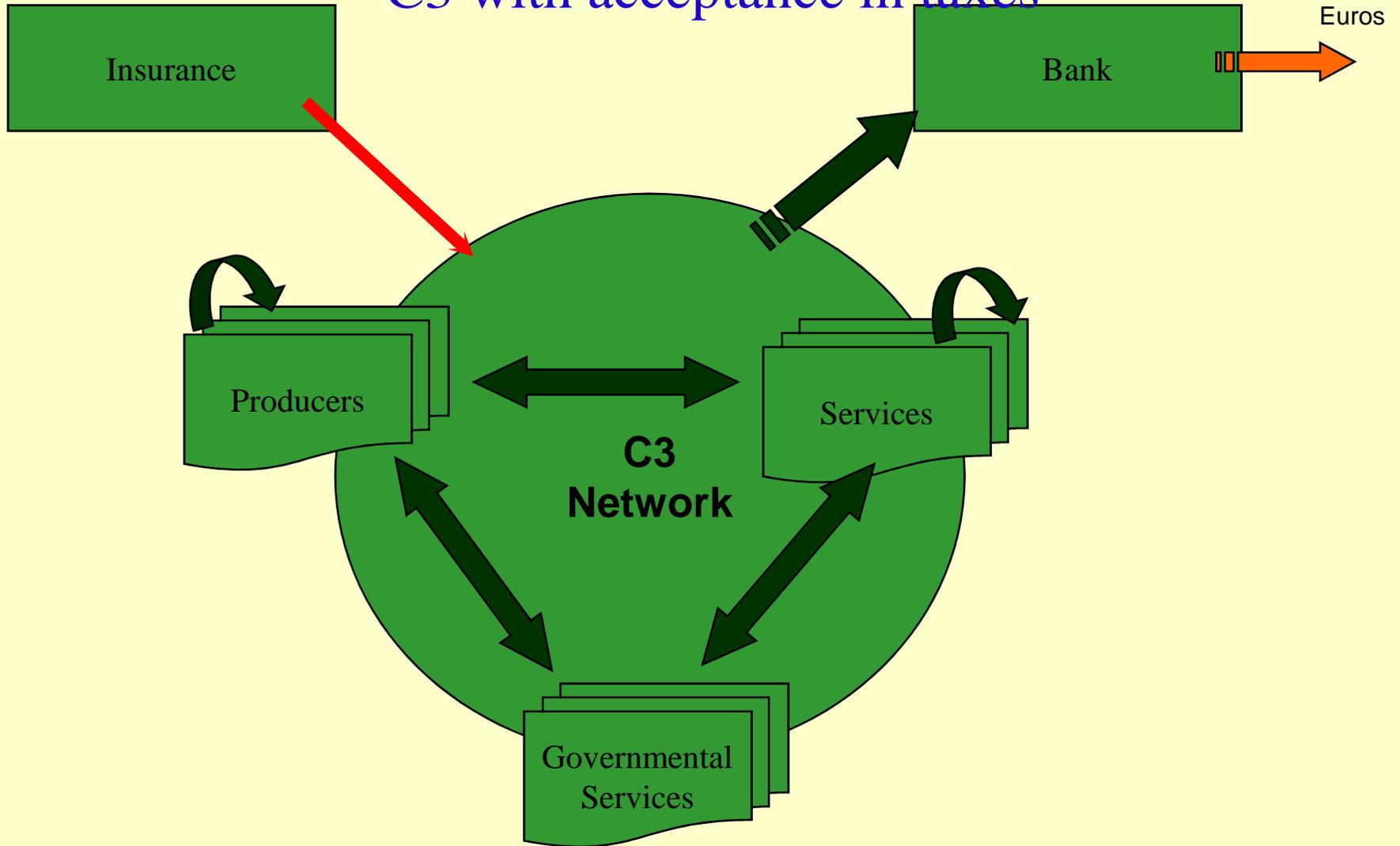
B2B currency: Commercial Credit Circuits (C3)

- Objective: *Systemically* counteracts *unemployment* explosion by providing innovative bridge financing for Small and Medium Sized Enterprises (SMEs)
- Problem: SMEs are pressured to pay quickly (e.g. 30 days)
But get paid slowly (e.g. 90 days)
Banks uninterested in providing bridge financing
- Solution: Invoices are insured before being accepted in C3 payment system, until payments due in conventional national currency either by issuer or by insurance company
- Each recipient of a C3 has two options:
 - Exchange into conventional national currency at a cost
 - Pay own suppliers without cost
- Operational in Uruguay and Brazil, approved by Central Bank and IDB.
- Accepted in payment of all taxes and services by government in Uruguay.

C3 Basic Model



C3 with acceptance in taxes



The Choice



**Sticking to Monetary
Status Quo**



**Or embracing
Information Age Money**

**NB: Complementary Currencies are now where
Open Source software and Microfinance were 10 years ago...**

Plan

- Blind Spots
- Systemic Cause
- My Proposal
- **Conclusions**

A Choice to Make for Europe



**Sticking to Monetary
Status Quo**



**Or embracing
Information Age Money**

**NB: Complementary Currencies are now where
Open Source software and Microfinance were 10 years ago...**

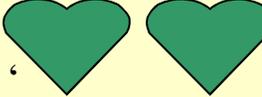
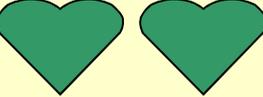
Thank You!



Follow up

- www.lietaer.com
 - White Paper on Options for Managing Systemic Banking Crises
 - C3 Proposal.
 - Technical Documents backing this approach
- B. Lietaer “*Future of Money*”
- B. Lietaer “*Mysterium Geld*” for historical evidence
- Email contact: blietaer@earthlink.net

Options for Managing Banking Crises

| Approach | Bankers | Taxpayers/ Central Governments | Local Governments | 2d Wave | Systemic Cause |
|--|---|--|--|--|---|
| <i>Conventional</i> Nationalizing Problem Assets |  Preferred |  Most Expensive (no leverage) |  Unaddressed |  delayed |  Unaddressed |
| Nationalizing Banks |  Equity Dilution |  10x leverage |  Unaddressed |  delayed |  Unaddressed |
| <i>Unconventional</i> Nationalizing Money Creation |  End of current business model |  LT solution (but inflation?) |  Unaddressed |  Governments spend money into existence |  Unaddressed |
| Complementary Currencies |  End of <i>monopoly</i> of money creation |  LT solution |  LT & ST solution |  LT & ST solution |  Systemic Solution |

Role of EU in the Crisis?

- Risk of Unraveling of EU economic integration during this crisis...
 - Banks were saved by nation-states with EU playing only secondary coordination role
 - Idem with automobile industry (and upcoming next big business sectors: steel?)
- EU role in reducing job crisis through SMEs?
 - EU level institution makes offer to Regions to provide 1/3 of invoice *guarantee* at condition to keep emergency systems compatible
 - Regions provide second 1/3
 - Private insurance companies final 1/3

Relevance

- Important because monetary system is the meta-system controlling all other systems in our society
 - Business
 - Governments
 - Academics
 - Majority of all individual activities
- *“If Americans understood money and banking, there would be a revolution the next day.”* Henry Ford

Why Save the Banks?

- Lesson from the 1930s: “2d Wave” Crisis
 - When many banks bankrupt at the same time they trigger a “2d Wave” recession in the “real economy”
 - Reason: banks stop financing “real economy”
 - Banks have monopoly of issuing legal tender
 - => Strangulation of all other economic sectors
- Consequence: “Moral Hasard”:
 - “Too Big to Fail” banks take high risks
 - If profitable => private winnings
 - If failed => governments will bail them out...

US Taxpayer's Commitments... So Far

- **Total commitment for financial bailout 2008: \$4.616 trillion dollars.**

Louisiana Purchase: Cost: \$15 million, Inflation Adjusted Cost: \$21billion

Marshall Plan: Cost: \$12.7 billion, Inflation Adjusted Cost: \$115.3billion

NASA: Cost: \$416.7 billion, Inflation Adjusted Cost: \$851.2 billion

Race to the Moon: Cost: \$36.4 billion, Inflation Adjusted Cost: \$237billion

S&L Crisis: Cost: \$153 billion, Inflation Adjusted Cost: \$256 billion

Korean War: Cost: \$54 billion, Inflation Adjusted Cost: \$454 billion

The New Deal: Cost: \$32 billion (Est), Inflation Adjusted Cost: \$500billion •

Invasion of Iraq: Cost: \$551b, Inflation Adjusted Cost: \$597 billion

Vietnam War: Cost: \$111 billion, Inflation Adjusted Cost: \$698 billion

TOTAL: \$3.92 trillion

- Costs of World War II borne by the US is the only example of a comparable cost: \$288 billion, inflation adjusted **\$3.6 trillion.**

European Governmental Guarantees

- Guarantees provided by European governments are also without precedent
- Assets of 3 largest banks in the following countries (as % of GDP):
 - Germany 130%
 - Italy 142%
 - Portugal 147%
 - Spain 218%
 - Ireland 253%
 - France 257%
 - UK 317%
 - Netherlands 409% (2 biggest banks)
 - Belgium-Luxemburg 528%
 - Switzerland 773% (2 biggest banks)
 - Iceland 1,079% (first country to go bankrupt...)

Role of EU in the Crisis?

- Risk of Unraveling of EU economic integration during this crisis...
 - Banks were saved by nation-states with EU playing only secondary coordination role
 - Idem with automobile industry (and upcoming next big business sectors: steel?)
- EU role in reducing job crisis through SMEs?
 - EU level institution makes offer to Regions to provide 1/3 of invoice *guarantee* at condition to keep emergency systems compatible
 - Regions provide second 1/3
 - Private insurance companies final 1/3

My Proposal

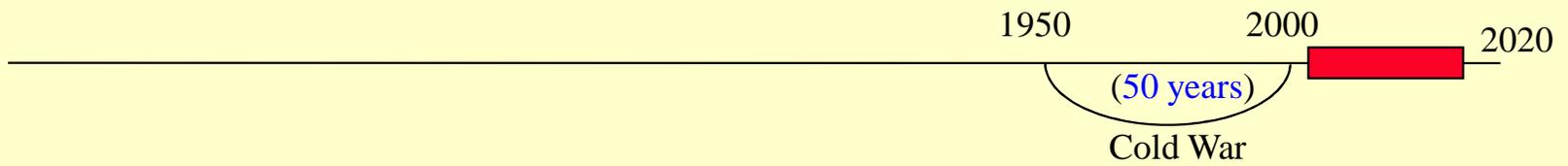
- While banks can't fulfill their funding role at appropriate levels, have *local and states* accept *partial* payment of taxes in *selective* and *robust* complementary currencies
 - Start with robust B2B currencies (because best auditable)
 - Implement WIR type systems...
- Complementary currencies are useful to solve problems even without any crisis
 - Over time, local and state governments can encourage them in other ways than acceptance in taxes in the future

Systemic Solution #2

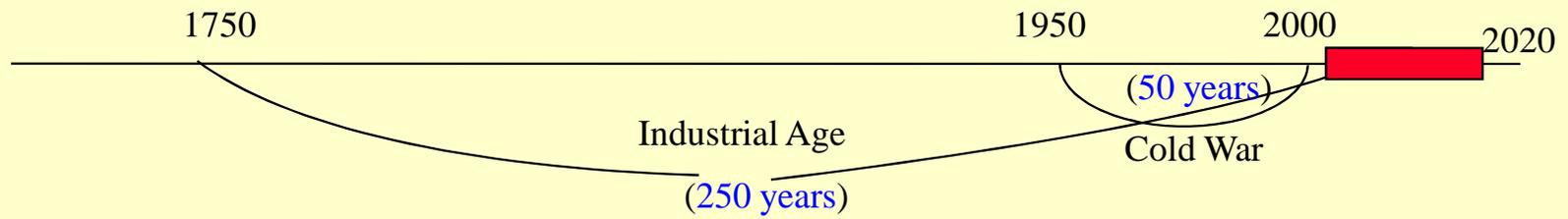
Ending Monopoly of Bank-debt money

- Governments (central and/or local) accept in *partial* payment of taxes carefully *selected* complementary currencies (other than bank-debt money).
 - Complementary currencies could be those created by local governments, or by corporations (b2b such as WIR, Terra), or even local non profits (social purpose currencies).
 - Very flexible (choice of currency, time, percent accepted, etc.)
 - Example of partial precedent: Russia accepted payment of taxes in copper during ruble crisis.
- Doesn't end privilege of bank-debt money as legal tender, only temporarily their monopoly...
 - Doesn't end the banks' business model
 - Complementary currency management can in fact be a new banking service
- Criticism: less efficient...but that is exactly what is needed

The Long View



The Long View

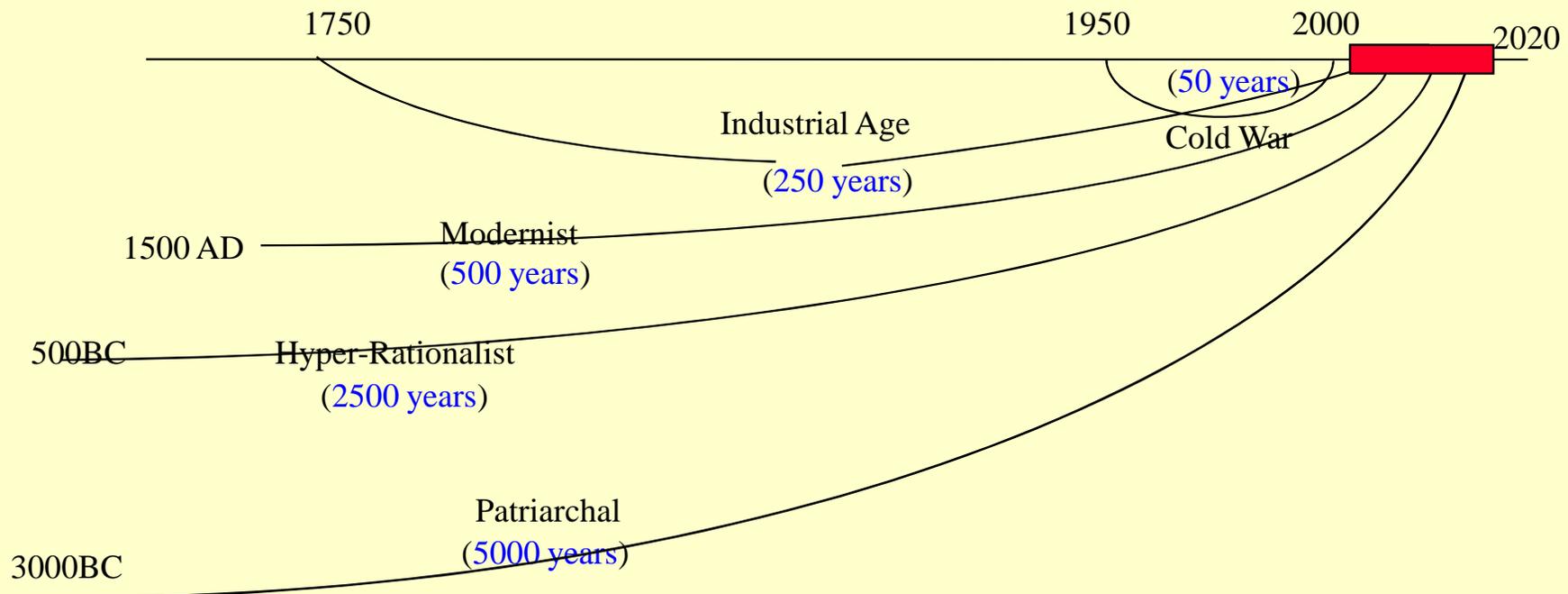


The Long View

Longer waves embrace, direct and feed shorter ones...

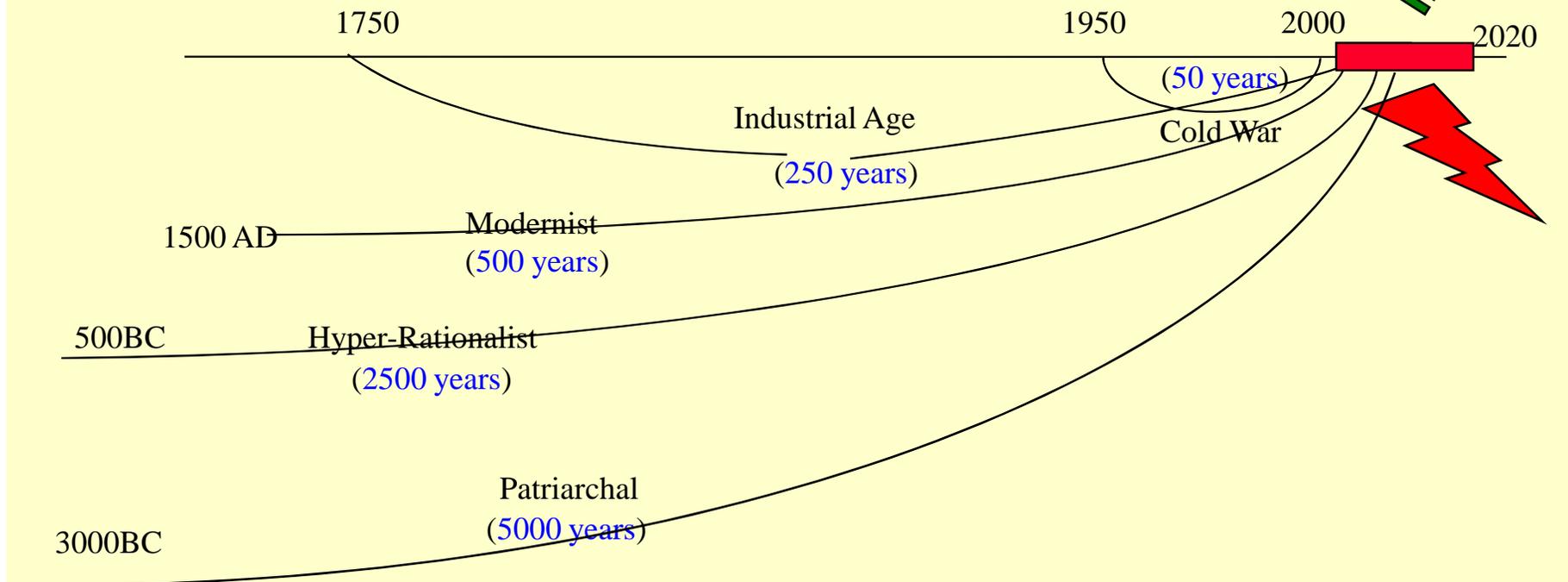
What ties these “waves” to today’s crisis?

Answer: “Patriarchal Money System”



The Long View

Planetary Wisdom Civilization



Conclusions

- Re-regulation is necessary and will be on everybody's agenda, but it can only make such crises less frequent, not eliminate them.
- We can do better than in the 1930s
 - but only if we consider systemic options...
- The systemic option of complementary currency is
 - within the political decision power of local and state governments
 - An acceptable compromise for banking system?