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THE DYSFUNCTIONAL OPERATION OF MONEY

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ABSTRACT

A stable society requires a stable economy, and that requires the foundation of a stable money and currency system. In order to understand many of the typical problems facing a society it is important to go beyond social, political and general economic issues to investigate the essence of the whole system, the stock it is based on: the money. The aim of this study is to trace the basic dysfunctional structures ingrained in the current global financial and monetary system and to present the consequences of those structures' existence. The conclusion of the research suggests that there is a considerable correlation between the actual operation of money and most of the serious threats societies and humanity as a whole face nowadays: The regularly occurring economic crisis, the record levels of debt, the increasing level of unemployment, inflation, the growing gap between rich and poor, and the environmental degradation are all examples of the negative effects the study highlights as inevitable consequences of our monetary system. In its conclusion, this report introduces an alternative money system that could help solve economic problems for the communities faced with such problems.
Keywords: debt, interest, inflation, unemployment, community currency

INTRODUCTION

Money, in general, is a medium of exchange. The irony of this statement, however, is that money can also hinder the potential economic transactions and trade – especially as it is used and operated nowadays.

Despite the incredible productivity and technology of modern economies, nations and workforce are required to work ever harder to increase their economic performance each year. Although we are living in a world of plenty we are experiencing rising level of debt, poverty and stress, and the gap between rich and poor is also increasing.

Greenspan (2000) once said in relation to the concept of money: "It is not possible to manage something you can't define."

Money is still blurred with mystery and mystification although many of the challenges we face can be traced back to the concept of money and the way it is governed.

The purpose of the report is to outline the reasons why the idea of monetary reform is one of the most fundamental matters for a sustainable future and to open up a choice we have to create a balanced economy for regions.

CONTRADICTIONS IN THE CONCEPT OF MONEY

It is not an easy job to analyze money, the system of money and its nature, because as soon as we start dealing with the topic we face many contradictions.

Before examining the main deficiencies of money, however, first let us clarify why money is considered to be a great invention. As a wheel which made transit easier, money made the exchange more convenient and effortless. Without money, service had to be paid by service. If the basket weaver, for instance, needed a pair of shoes, he had to find a shoemaker that wanted to get a basket. The example shows how limited the trade was without money and there were no real option for specialization and for the division of labor. Looking at the exchange of services – which made civilization and cultural development workable – money is acting as an intermediary that saves the supplier of a service from depending on an exchange partner. Money makes service attainable to everyone who is interested in it and provides freedom for the supplier to use the received signal for any other product or service he wants. Prior to the modern money system, other products played the role of mediation; products, which could be used by almost everyone, such as salt, grain and cacao bean. Although these goods were eligible for exchange as they had high life-span, their handling was not practical and they lost their worth in the course of time.

Contrarily, the countable and durable money that was easy to keep and carry, and which made prices easily comparable, generated breakthrough towards economic development, which was a must for civilization (*Creutz,* 1995).

Development of money, however, brought new and significant challenges as well. The root of these challenges can be captured in the contradictions money incorporates (*Creutz*, 1995):

- Money works as a medium of exchange and as a store of value at the same time, although one function invalidates the other.
- The compulsion to accept money is not balanced by the compulsion to pass it on.
- The only public service which anyone can legally withhold and abuse it for private benefit.

These contradictions would already be enough to understand the problematic nature of money and why it generates troubles within an economy. To see what it means in practice, however, we need to summarize what purpose money can serve and why circulation is the most essential concept regarding the role of money in an economy.

MONEY CIRCULATION

Prime Minister of France, Eduard Daladier, said the following during the London Conference in 1934:

"In our economic system money has the same function as blood for the body of human beings. In order to fulfil all the different functions of life, circulation of the

blood must be ensured without interruption. With money it is the same - it necessarily needs to circulate in order to realize full employment" (*Glötzl*, 1995).

We usually receive money for providing a product or service, and the same way we usually give it away in exchange for a product or service. However, we can use it to other purposes as well, such as donation or lending, or we can just simply let it sit.

If we donate the money, it moves from one person to another and the new owner can use it for any good or service she requires. If we lend it, we temporary give up our right for that money. If we let it sit, then we hold the satisfaction of our needs and wants to a later date. This way, however, the circulation of money stops, and this contraction is not a single event, rather a chain-reaction.

If, for example, money changes hands two times a month then a deposited 100 Euro will cause a 2 400 Euro shortfall in demand a year. In case of donation and lending circulation remains closed. Holding back money, however, cause disturbance which in the course of time will accumulate.

Therefore one of the basic defects of the structure of money lies within its function of storing value.

So summarizing the functions of money we end up with the followings: medium of exchange, store-of-value and a price-comparing instrument. Besides that we can gain capital by lending it in exchange for interest payment(s) (*Creutz*, 1995).

What are the consequences of savings?

To consider the consequences of savings we need an example that is narrow enough to be able to track its steps. Still pursuing the illustrations of Helmut *Creutz*'s book (1995), let us imagine an island with 10 residents, who all provide service for 200 Euro and require service worth the same. Furthermore, let us assume that money go around two times per month. In this case 1 000 Euro is needed for the transaction of trade. If they continuously spend this money in the island, the circulation of money and conjuncture will be stable. Everybody provides the same degree of service as they require. In case of satisfied needs and wants economic growth is not necessary.

Take the following situation into consideration:

One of the residents – who has the same 200 Euro-income as everyone else – need only 180 for himself, therefore he saves 20 Euro each month.

1. The saver donates regularly the saved 20 Euro: if the beneficiary spends this 20 Euro with equal regularity, then the market of the island will sustain invariably. Actually the beneficiary has resort to the services the saver (donator) gave up. In the long run, however, the beneficiary will get richer compared to the rest while the wealth of the donator will drop.
2. The saver regularly lends the 20 Euro: in regard to the market of the island and to the distribution of wealth the situation is the same as in the first case. The unsettled compulsory redemption, however, raises the assets of the lender and the debt of the borrower. A year later, the sum will be 240 Euro, and 10-year later it will grow to 2400 Euro. Hence, ten years later the assets as well as the debt will be 2.4 times greater than the amount of money circulating on the island.

3. The saver lends the money in exchange for interest: The market of the island – concerning the circulation and the conjuncture – does not change at first. The person who receives the loan, however, now has to pay "lending fee" every month besides his promise for paying the principal. This can be paid only from his income. In case of a 10 percent interest the fee will reach 2 Euros in a year and 20 Euros in 10 years. There is a steadily growing interest expense on the one hand, and a steadily growing income on the other. If the saver is keep saving the same way as before then – thanks to the interest incomes – he will be able to lend a greater and greater amount – besides the 20 Euros saved monthly.
4. The saving person accumulates the money at home: this way 20 Euros is taken out from circulation each month. 10 month later, 200 Euros will be collected – the one-fifth of the total money supply circulating. 50 months later, mathematically, all the money at the island will be in the hand of the saving person.

This case, of course, cannot occur since the monthly growing scarcity of money stops the island's economy much earlier (*Creutz*, 1995).

What can we learn from the example?

As the first three cases indicate, the saved money not only can be donated or lent, but it actually *must* be put back into circulation if we do not want the economy to collapse – as it was presented in case 4.

Taking the second and third case into consideration we can see that by lending money, only debt grows and not the collective sum of money. This, in theory, can grow to infinity without influencing the money stock. In regard to both cases, the debtor is less and less able to pay the growing debt and it becomes more and more dependent on the lender. More and more of his assets need to be put in pawn and finally, all he owned once – house, garden – get into the lender's property (*Creutz*, 1995).

In former times, at the end of the treatment the debtor became serf or closed into prison. Nowadays, threat means "only" insolvency and the pawning of the debtor's property or regular income.

In regard to the second case, however, in my opinion debt can be paid back easier. The point is that it has to be paid back in the same proportion and in the same pace as it was lent, and has to be spent as well. The one who is paying the debt has to save 20 Euros each month and give it to the lender, who in turn, spends this amount in the economy.

Lending money without interest does not cause such problematic situations as mentioned above – only in very few, rare cases. So, it is not usual that someone collects money all the time while someone always borrows some. These procedures rather break and turn around. In addition, they progress only "linearly". In case of the third case, however, debt – as a result of the effects of interest – increases in a greater and greater degree.

If the borrower paying the interest is not able to restrict his standard of living continuously, he *has to improve its performance constantly*, *and sell the excess production* or service to others. If a third, however, does not want to have his product or service unsold, a general increase in demand and consumption becomes necessary, and – if

they want to keep prices stable – the bank of the island needs to pump more money into the economy.

Lending money in the form of debt involves an acceleration effect, which *leads to a growing inequality between the creditor and debtor.*

Additionally, if the debtor needs to pay his debt from new debt, the redistributing process becomes irrevocable. Nowadays, this course can be followed in case of many factories, households, countries, and especially in case of national debts. (From an individual perspective, borrowing money at interest rate is profitable only if, the debtor can develop such productive investments that have returns over interest obligations).

Interest based lending is trouble free only if the saver and debtor – even at differing time horizons – is the same person, meaning that he has the same amount of periodical interest income as his current or past interest payments were (*Creutz*, 1995).

THE CURRENT MONEY MECHANISM

Currently, the financial system of most of the countries is based on the central and commercial banks. Central bank creates money – out of thin air – and commercial banks lend it further in the form of credit. So "when a deposit of central bank money is made at a commercial bank, the central bank money is removed for circulation, and an equal amount of new commercial bank money is created. When a loan is made using the central bank money from the commercial bank (which keeps only a fraction of the central bank money as reserves), the money supply expands by the size of the loan" (*Gregory*, 2002). Now that is the traditional explanation of the so-called fractional-reserve banking system and it may be the case in some countries, but certainly there are countries and states where fractional-reserve banking means something else.

The Federal Reserve Bank of Chicago used to publish a booklet entitled as "Modern Money Mechanics" in a purpose to describe the basic process of money creation in a fractional-reserve banking system. Within the last paragraph of the sixth page, the following statements can be read:

"Of course, they (banks) do not really pay out loans from the money they receive as deposits. If they do this, no additional money would be created. What they do when they make loans is to accept promissory notes in exchange for credits to the borrowers' transaction accounts" (*Federal Reserve of Chicago*, 1996).

The document declares that for a $10,000 deposit, $1000 is kept – at a 10 percent reserve requirement – as reserve and new loan can be created in the amount of the remaining $9000 (excess reserves). So the $10,000 remains in the bank, but a newly created $9000 can be lent out (*Federal Reserve of Chicago*, 1996).

In addition "the *interest received* by the banks *is partly* paid out again, as its operating expense and dividends to shareholders, but some is *retained as "reserves"*, which have to grow in proportion to the growth of the money stock, *and are not then available to perform as part of the money supply*" (*Leslie*, 2008).

We have seen already what disturbances money taken out from circulation can create. The prior example mentioned interest charges on existing money and still it was

problematic. Now, even money newly created is charged with certain rate of "fee" and the problem is that the interest which needs to be paid is not. Whether money is created solely by central banks – and passed on in the form of credit by commercial banks – or it is created by commercial banks as well, *the only way interests can be paid is by lending more money into the economy. This means that new loans need to be taken out faster than old ones are paid off otherwise the whole economy experience recession or depression.* We face the same problem today globally. There are other factors as well, of course, but the essence of the current crisis lies within this process. The rate of debt all over the world is increasing fast reaching record levels along with record levels of wealth of the elite few.

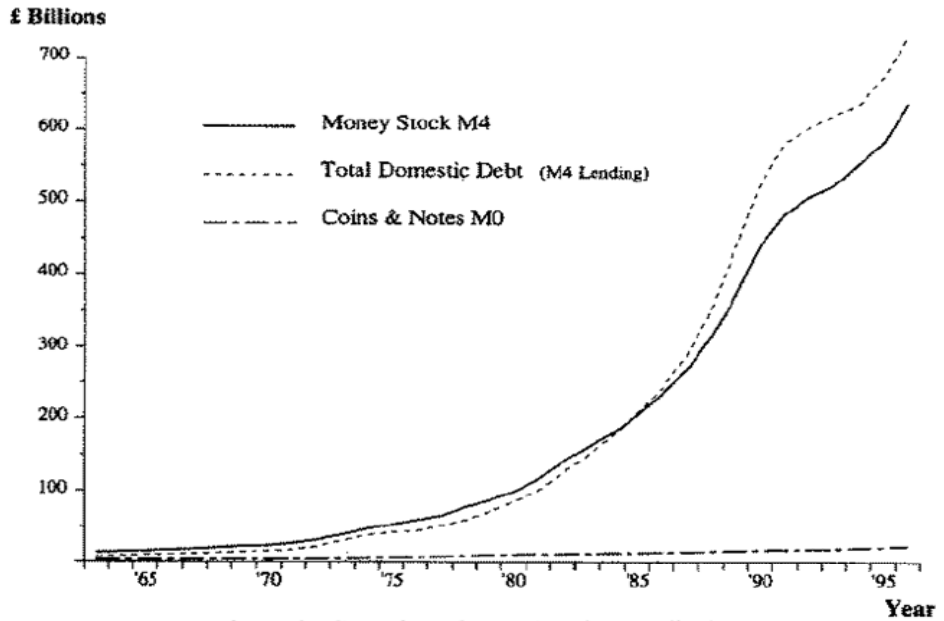
Even if those huge profits are spent into the economy, it would likely boost the luxury market alone and would not serve the society as a whole – as the profit is in private hands, the tendency of the economy and market mechanism would depend on their own taste and not on ideas designed to serve the community. But since received interest can serve as a reserve, even the noble-minded beneficiary will not spend the whole profit in the sake of the society. (They may get out of business or competition if they do so).

Taking this mechanism into consideration, we should assume that debt is growing faster than money stock, and once it should collapse.

In the UK, for instance, as *Figure1* represents, domestic debt became greater than the money stock in 1984 and it is growing at a faster pace since then. It means that the sum of notes, coins and money on current accounts is not enough to pay the debt.

Figure 1

Graph of "Money Stock" (M4) and Domestic Debt 1963-1996



Source: *Leslie*, 2008

Why does it matter?

1. *Cycle of booms and slumps are inevitable.* Money supply charged with interest results in economic booms and slumps. In a growing economy banks confidently give out loans, but when they become worried about the security of their loans – which is imperative as there are not enough money to pay the debts – they start calling them in without lending more. This contraction of the money supply creates a vicious circle: firms – in order to stay in business – pay lower wages to employees; lower amount is available for purchases; hence the lower sales figures make companies run out of business; unemployment increases...etc. Eventually something will reverse the process. Usually this means injecting money into the economy by borrowing (again) certain sum from central banks or from international institutions, funds (*Leslie*, 2008).
2. *"It gives the banks power to decide who can get loans, on what terms, for what purpose"* (*Leslie*, 2008). The decision is based on their own needs, of course. Banks search for clients with reliable ability for repayment and with collateral which they can claim in case of default. This means wealthier – in contrast to poor people – can apply for loans easier and thus, has the opportunity to become even richer. (Advantages of the larger firms over small ones could also be mentioned). Moreover, it makes every debtor – and not debtor as well – think in terms of money and profit, otherwise they will not be able to pay their debt, and unfortunately the socially and environmentally damaging projects seem to be more profitable than the renewable energy projects. Basically, money supply is not – it cannot be – matched to society's needs, only to "profit".
3. *"It results in growing indebtedness and growing competition* for funds and profits to discharge debts; it causes the crazy, desperate struggle between nations to export their internally-unsalable goods, in exchange for foreign debt. … Banks also impose high levels of interest on this debt, causing the growing divide of extreme wealth and poverty – and giving the banks huge profits, out of proportion to the service they perform. Practically every country has a fast-growing national debt – and the country with by far the biggest national debt is the richest: the USA" (*Leslie*, 2008).
4. *It requires a growing money stock* in order to pay the interest on the ever growing debt. When money stock increases we talk about 'economic growth' – usually along with price inflation. However, since money stock comes into existence in the form of debt, we need to mention 'debt growth' as well. Growth of an economy – based on the mechanism being considered – goes hand in hand with the growth of its debt.

Table 1 represents the results of a *regression analysis between the total debt of a country and its national income*, taking *132 countries* into account for the year 2004 and 2005.

According to the results, *the correlation is perfect.*

Moreover, due to interest, debt grows at an exponential rate so it will always increase at a greater pace than GNP.

Figure 2 indicates the change of the total credit market debt and GNP in the US between 1971 and 2008.

Table 1

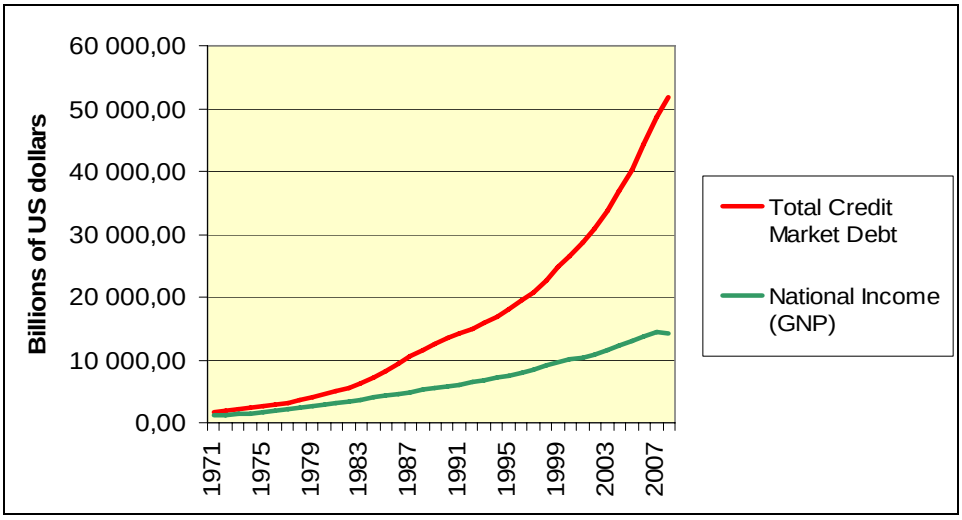
Modelling money as debt

Calculations:	
Corr. GNP vs. All debt 2004:	0.981
Corr. GNP vs. All debt 2005:	0.984
Corr. GDP vs. All debt 2004:	0.957
Corr. GDP vs. All debt 2005:	0.953

Source: *Kiss*, 2009

Figure 2

Total Debt vs GNP



Source: *National Security Agency and the Federal Reserve Bank of St. Louis*, 2011

"To attempt to repay these debts we cut expenditure and try to improve "productivity" (per person as well)…Yet, or because of this, we cannot 'afford' to employ all those seeking work… Despite the incredible productive capacity of the modern economy the workforce is required to work ever harder, with increasing stress and poor pay – *we are always chasing insufficient money*" (*Leslie*, 2008).

1. *It raises costs and prices.* Interests charged on loans have to be built into prices to cover costs (and still make profit). On average, about 30 to 50 percent of all prices can be traced back to interest charges. Additionally, tax-cuts are more and more difficult to accomplish – although it would be favorable to the public and likely to the economy – since this is the main source of the government by which its debt, more precisely, the interests of its debt can be repaid (*Brown*, 2008).

2. *Bank created credit can be used for financial speculation* which gambles world's currencies against each other which, in turn, likely to disrupt the operations of many economies. "Over 95 times the money needed for international trade in goods and services changes hands in this gambling" (*Leslie*, 2008). In addition, giant international banks are not only acts as lenders in the global markets but as investors as well. "Banks have a grossly unfair advantage in this game because they have access to so much money that they can influence the outcome of their bets" (*Brown*, 2008). Furthermore, if the bank – especially in case of the US – is one which is titled as "too big too fail" institution, it can be confident that even if its bet goes wrong, the taxpayers directly and indirectly through the FDIC will bail it out from its mistake (*Brown*, 2008).

Question of inflation

The second *myth* is *about government printed money*. The idea that government could simply issue the money it needs is regarded inflationary, yet *banks create money all the time*. Moreover, they must do in order to keep the "system" or the economy running. In addition, interests charged on loans are added into the prices charged to cover costs.

"A dollar accruing interest at 5%, compounded annually, becomes two dollars in about 14 years. At that rate, banks siphon off as much money in interest every 14 years as there was in the entire world 14 years earlier" (*Brown*, 2008). (This assumes that the debt is not paid but just keeps compounding, but in the system as a whole, that would be true. When old loans get paid off, debt-money are extinguished, so new loans must continually be taken out just to keep the money supply at its current level). The Federal Reserve started tracking M3 in 1959, and according to its chart, M3 was about $300 billion in that year. 14 years later (1973) it was $900 billion. 14 years after that (1987), it had grown to $3,500 billion; and in 2001 it was $7,200 billion (*Board of Governors of the Federal Reserve*, 2002).

What causes and directs inflation?

The main cause of the constantly increasing prices is the exponentially growing debt. It would be more logical if the product or service representing or rather involving accomplishment come into existence first and only after that could money be created – which symbolically represents these accomplishments, and which has no value in itself. In the current – mostly privately owned – financial system, however, first the symbol is created and then the participants of the economic life have to develop the content – so the product or service – for this "empty signal". Society needs to pay for this signal created at a very low cost by real outputs, real work. This way the output of the (value-creating) workers flows to a small group that has the power to create money and control the degree of interest.

The official reason of inflation – rise in the general level of prices of goods and services – is the excess growth of money supply for a given amount of products. We have already seen that more and more money needs to be created for the interests of debts, and if this increase in money supply is greater than the growth in the volume of products, inflation will arise. (Certainly, there could be other factors

for the general price increase as well, such as an intended price increase ordered by government authorities, and an increase in the price of imported goods after the devaluation of the state currency).

Price is the amount of money paid for a unit of product. If the given amount of money increases for any reason, the price of a good will increase and the purchasing power of money will decrease in respect to that product. In addition, as price increase is general, then in all respects (*Drábik*, 2002).

Still, the official explanation of inflation – that there is too much money compared to the volume of products – is misleading. This statement simply gets around the real reasons and focuses only one possible aspects of inflation. Everyday experience already contradicts to this exposition since there is no shop – or it is very rare – where buyers with too much money "hunt" the wanting products. Rather it goes vice versa: There are many goods with higher and higher prices which buyers cannot buy because of the lacking money.

Inflation actually means "lots of money" only in nominal terms. The quality, or in other words, the purchasing power of this money is lower as it worth less. Although it is true that within our current financial or rather monetary system the sum of the loans are growing fast, but the value of this debt-based money is constantly declining, its purchasing power decreases.

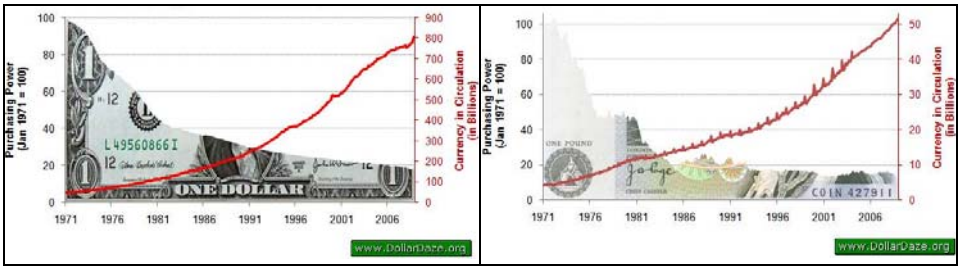
Figure 3 and *Figure 4* indicate the relationship between the US dollar and the British pound stock in circulation and their purchasing power between 1971 and 2008.

Figure 3

USD –Purchasing power and currency in circulation

Figure 4

GBP –Purchasing power and currency in circulation



Source: *Hewitt and Petrov*, 2008

"Looking at the data, from January 1971 to December 2008, the U.S. money supply increased 16.8 times; this was accompanied by an 81.1% drop in purchasing power of the dollar, as implied by the governmentally-reported CPI" (*Hewitt and Petrov*, 2008).

Figure 5 and Figure 6 show similar relationship for the Canadian dollar and for the Australian dollar.

Figure 5

USD –Purchasing power and currency in circulation

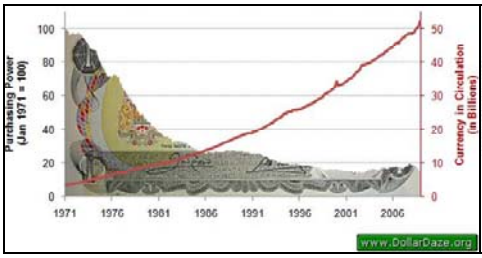
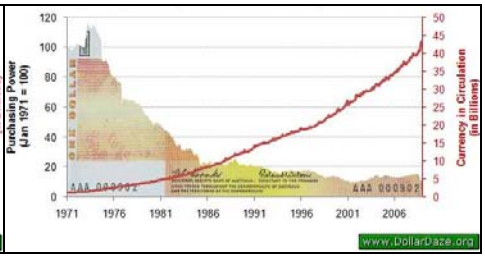


Figure 6

USD –Purchasing power and currency in circulation



Source: *Hewitt and Petrov*, 2008

The most commonly used explanation of inflation is true in case of a debt-free money system, where new money come into existence without interest charge. In case of our interest-based financial system, however, it is not correct. Every time when money created as debt there will be lack of money to buy all the products and services. When we need to use more money for the same product, our attention stuck at the nominal increase of the price and not at the change in the quality of our money, as its purchasing power has decreased. *The declining purchasing power of money is the direct consequence of the exponentially growing debt resulted from interest charges.*

Let us think it over: To pay the interest on our debt, it is not enough to apply for a loan with the same amount as previously, because it would just roll our current debt over and accumulate interest charges. In order to reduce our debt more money is needed, therefore it is inevitable to raise the prices of the goods and services, to enhance productivity, and to reduce the costs of employment and overheads. To gear up productivity, however, there are physical and ecological limitations, and there are social and biological ends to wage reductions too.
The growth of interest on the other hand has no end (*Drábik*, 2002).

Unemployment

The prior statement that there is always lack of money to buy all the goods and services has to be extended, since service can mean offering oneself for a job as well. Hence, there always be certain amount of people who simply cannot be paid for a job and therefore will not be hired. Or if so, it means that payments for existing employment need to be reduced; but it has its limitations. Taking from another perspective – as it was also mentioned – companies need to reduce wages to be able to cover the costs raised by their debt. After a certain point, as debt increases, however – and the firm did not go bankrupt already – certain amount of workers will need to be fired so others can keep their – more or less normal – standard of living.

So if we force only restrictions and the unilateral monetarism, restraining inflation will only be possible by abolishing millions of jobs and workplaces.

COMMUNITY CURRENCY

During the Great Crash of the 1930s many banks in the United States had been closed, a great portion of the deposits held by them had been lost and for many communities the issuance of own currency became necessary. These communities had many unemployed who not only could but wanted to work; the cities and people still had their needs and resources were still available. The only thing that was missing is the "web of contact" (money) that could allow the flow of the local work and resources and ensure their participation in production.

The *main purpose of community currency is to complement this missing web*, to bridge the demand with supply, the desire with capacity, and to match the unmet needs with the underutilized resources. (These currencies therefore are also called as complementary currencies)

The spread of *globalization* (*of the "debt-money system")*, the continuous increase of wealth transfer, the widening gap between rich and poor led many regions into difficult economic circumstances. This is especially true in regions where traditional (long lasting) factories closed or moved somewhere else, but the situation is dramatic in many other, more complex regions too, where people suffer from high rate of unemployment and work in uncertain jobs providing insufficient income.
The complementary currency system enables communities to use their underutilized resources and abilities to mutually help each other.

According to experts' estimation about 3000 such working communities exists in the world. About 400 in the UK, more than a 100 in Australia and New-Zealand, many can be found in Canada, Europe and in the United States, and there are a few in Mexico, South-America, Africa and in Asia. In certain communities the number of the members is below 100 while in others it is well above thousands. Some were initiated by a few innovative people in response to downsizing and insufficient money supply, whereas some was introduced by non-profit organizations or by regional development advisors who wished to improve the economic conditions of a specific region (*Brantd*, 2001).

Taking the initial analysis into consideration, however, it is important to note that local currencies concentrate exclusively on the two key functions of money: standard of value and medium of exchange. This way the speculation with and accumulation of money is extinguished.

The best way to achieve such circumstances is to introduce money with negative interest return as developed by Silvio Gesell. Silvio Gesell was an unconventional economist, who sought to know the true nature of money. In his book – "The Natural Economic Order" – *Gesell* (2004) proposed his new concept of 'free money'. Later, the economist John Maynard *Keynes* (1936) stated in his book, the "General Theory of Employment, Interest, and Money" that he believes the future will learn more from the spirit of Gesell than from that of Marx. His suggestion was to create a system where money looses its value as it is withhold from circulation. The secret of that would lie on stamps placed on the reverse side of the bills. At the beginning of every month a consumer have to purchase a stamp costing 1 or 2% of the face value of the bill and paste it to the bill. In other words,

the value of the money decreases if it is not used. Accordingly, those who possess this bill have to use this money first and this way these bills start circulating one after another. Hence, money would really have the function of promoting economic activity. At the end of the year the institution of issue would exchange the stamped currencies to new bills that are empty on the back so to be able to paste further stamps on them. Moreover, the costs of stamps collected each month can be spent in the economy or used for social projects, thus keeping the region's money supply in balance.

Current complementary systems use simply interest-free money, whereas many instances of the 1930s based their money system on negative interest.

The Worgl Experiment

Also in the 1930s by the brave decision of the major of Worgl – a town located close to the German border in Austria, Tyrol – Gesell's theory of free money was put into action. The Great Depression brought serious recession to the small Austrian town. Production became stagnant and unemployed people were found everywhere. The population of Worgl at that time was a little less than 5,000, while the number of unemployed reached over 400. As income from taxes dropped sharply and the town's debt grew, Worgl was facing financial ruin. Michael Unterguggenberger the major of that time attributed the economic breakdown to the stagnation of money. Currency was saved but not circulated. If money does not circulate the number of unemployed will increase, production will decrease and consumption will slow down. To improve the situation he decided to introduce Gesell's idea of free money. In July 1932 with the agreement of Ministry of the Assembly the town decided to issue local currency which was only valid in that town. This action started new businesses, created work for the unemployed, and paid money with the new local currency called 'Labor Certificates'. The town then constructed roads, public institutions, built even a ski jump and made payments to the unemployed using the local currency. A miracle happened. The local currency which was initially paid as salaries rapidly started to circulate throughout the town and by circulating, money performed economic activities several times larger than its value. The town's income from taxes – which had been stagnant – started to increase steadily. The secret of circulation here as well rested on the previously mentioned 'stamp scrip scheme' (*Oliver*, 2002; *Weston*, 2008; *Cohrssen*, 1991).

Sealing was a very elementary, but efficient form of achieving the above goal. Establishing a money system based on negative interest, however, is much more convenient in the age of smart cards, electronic accounting, and local changer systems than it was at that time. (A simple charge on the account would work).

This small step provides many advantages:

All the participating members of the new system will be interested in the spread of the new currency. The organizers of the actual systems have realized that the founders remained the strongest promoters in the course of time and therefore some system simply tails off as soon as they cannot deal with the expansion of it.

Paul Glover, the founder of the Ithaca money system admitted that most of his time is spent with the recruitment of new members. This is typical since the other

participants have no major incentive to actively promote new members; they can simply keep the currency until they have some use for it. In contrast, in Worgl (and in many other similar systems of the 1930s) everyone was motivated to convince the bakery, the butcher, and the family members to accept the new money. „One of the reasons that local currencies have multiplied in number today but have not spread as widely as in the 1930s is this structural difference in motivation for member participants. More jobs will be created. Community currencies now tend to create no more jobs in the community than normal currencies. This was not the case in Worgl, for instance, where we noticed that *every shilling of Worgl money created fourteen times more jobs than a normal national Shilling*" (*Lietaer*, 2001).

The social and ecological degradation of the second half of the 21st century are without historical precedent. Since the actions and tools of the central authority failed to front and neutralize this phenomenon, the local communities became the most logical place to do something about it (*Lietaer*, 2001).

In this study I essayed to report that the current money system has so many vital deficiencies that the considerations of new approaches became imperative.

Community currency is only one potential solution where the degree of potentiality depends on the economic and political conditions of the structures in which communities operate.

Probably the best solution would be to completely change the basis of the current institutionalized money system highlighted in the study. As it seems, however, a very time- and energy consuming project with many political difficulties, the idea of organizing solutions within more or less smaller communities had come into perspective.

CONCLUSION

The concept and the use of money degenerated far from its original purpose. Nowadays, money is created as debt by the central banks and – in most cases – by commercial banks as well in the form of loans and credits. So when money get into circulation indebtedness comes into existence without so much as goods and services would have been traded. Currently, events in the financial sector primarily adjust to the extent of the indebtedness and do not really represent the tendencies of the real economy. Within the prevailing global financial and monetary system there is not enough money in circulation in a given country unless it has a high degree of indebtedness; because low extent means there is insufficient money supply in circulation to serve the needs, the operation and the growth of the real economy. An ever growing debt, however, cannot be paid forever which leaves the controllers of the mechanism three options: Let it collapse; issue interest-free money in order to temporarily liquidate the debt and let the system operate again afterwards; or reform the whole system by eliminating the current debt-based mechanism.

It is important to realize that the issuance of money in the form of interest-charged debt has grievous consequences. In order to pay the expenses of the growing debt additional amount of debt-money needs to be supplied. It creates

such a forced economic growth that consumes the non-renewable natural resources and irreparably destroys our ecosystem. The actual mechanism neglects human needs and rather emphasizes its own growth demand. A system based on debt and interest therefore cannot be set up to "zero-rated growth" and this creates an irreconcilable contradiction between the economic and ecological requirements. Therefore the elimination of the interest-based mechanism in our current monetary and financial system is a must as early as possible. The actual study presented only one alternative solution but there are others in consideration as well. The point is to take a holistic view, concerning other factors – affecting our life – as well and not focusing solely on the societies' monetarist and financial activities. *This can only be achieved after reforming the current money system and its mechanisms.* It is the economy that should serve the people and not the other way around. This is the only way by which the concept of *sustainability* can apply.

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