

How to Create Local Currency

(and drawbacks of LETS system)



The intention of this article is not to repeat all advantages of having a Local Currency (LC). There are many sources found on the internet by searching » LETS Local Exchange Trading System«. But there is a major drawback in LETS design that prevents LETS from ever becoming really accepted by people other than enthusiasts and activists and seriously disable the potential to spread beyond close geographical distances. This drawback is created in the way currency is being put in circulation.

LETS currency is created upon each transaction, where the seller of goods or service gets positive balance and a buyer gets the negative balance on their official »balance card«. And this creates two, in my opinion, grave problems for system growth into something larger.

The first problem is that this negative balance requires public view into transactions. When money is of concern, we all like to have our own privacy. And to truly have a useful exchange system that gets used all the time, like euro and dollar banknotes today, privacy of personal transactions and balance on our account, must be kept private, otherwise it will never take root beyond closely connected local community and sometimes, especially not there!

The second problem is that this system of creating »money out of nothing«, FIAT money (euro and dollar are considered FIAT money also, as they have no backing of something of real value) requires to be as many debts as there are savings, that means that approximately half people will be in negative balance at any given time. And to have 50 % of people in negative balance all the time, requires great faith in the currency for people to save any amount of banknotes. Some will argue that this is good, for it promotes exchange, everybody want's to get rid of it soon, so to speak. The average bank account balance will wobble around 0. And then there is also a fact that too much savers will cripple the system as there is not enough money in circulation. And this is a bad foundation on which to build and promote a new, supposedly FAIR currency because how are you going to make sure debts are repaid? You can't! Except in a very local community where someone will »get his share« ☺ at the local pub if he refuses to »do his share«, repay the work he owes to his community. In the larger scale where people don't know each other personally, some, especially biggest debtors will simply default and »step out«. LETS is also meant to promote more fair society, where debts are »forgiven« to a man who really can't repay them, but on the other hand, this is very unfair to all savers, because the value of their honest work is being devalued, they get inflation each time somebody »drops out«. There is more and more currency in circulation and your work is worth less and less.

LETS is basically the same FIAT money, money with no intrinsic value, same as the dollar and euro! And they all gravitate towards inflation and devaluation!

Do we really want another »dollar« when we can do better !?

For the currency to be considered MONEY, it must have two characteristics:

1. it must be a means of exchange

2. it must be a store of value

LETS doesn't fill the criteria for »store of value«! (dollar and euro also perform very poorly on this second requirement for money, even now when there is still faith in the system. If the faith is gone so is any of their believed value.)

I propose the following modification to LETS, most notably the **abandonment of negative balance for members**. That opens the door for great things and future for local currency's expansion and merging of different local currencies into the common monetary union. Let's call it Positive LETS (PLETS).

Positive LETS

So to start issuing local currency we must first have a COMMUNITY ! There is no local currency without a community! This can be any kind of community from inhabitants of certain town or city, union of farmers, local gardeners club, There is no need to be officially formalized, registered at state authorities, but it is important there is trust between initial members.

To honor the peoples' rights to private money transactions and private account balance it means that we can't have negative currency (except as virtual, application controlled, IP cloud system that I strongly oppose as a monetary foundation, it is acceptable only as an »add on« on physical currency, like we have e-banking now for dollar and euro). If people can't have negative balance it means that the only credit giver can be a community. And only a community, local central bank if you like ☺ , is **allowed negative balance**.

So make sure the institution that issues the currency is in common ownership and not owned by an individual or a group of individuals!

And now, the most important question – **how is money created in the Positive LETS system?**

The money is created only when a member adds value into the Community. That can be done by doing USEFUL WORK for the Community or giving THINGS OF VALUE to the Community. When the transaction is made, the Community »money issuers« have a right to put a banknote of local currency they received from printing and are currently only paper, into the hands of the member and in that moment, **money is created**. No need to mention that this process is supervised by members in some way, so individuals do not miss use the mechanism. Most trustworthy people should perform this job of »money creation«. By using this rule, we simultaneously strengthen the Community and increase amount of money in circulation. New users of local currency can then join by doing work/selling products for/to the Community or doing work/selling products to users who have previously done work for the Community and acquired local currency banknotes. In first example currency in circulation expands, in the second example, it stays the same. By choosing the amount of work the Community accepts, the Community controls amount of currency in circulation and keeps the value of money stable and thus follow the second rule for currency to be considered a money – it needs to be a store of value. The more people wishing to use local currency, more »value« can Community receive without its currency losing on value

and the stronger the Community becomes. And if Local Currency is stable, it can be joined with other communities in common monetary union on the FAIR grounds for both. The Community is beginning to act more and more like a sovereign state within a national state or extending far beyond its political borders.

But what does the Community do with it's »strength«?

It provides various SERVICES for it's members (for people who possess local currency banknotes). And the ability to provide useful services comes from:

1. useful work of it's members
2. global currencies (euro, dollar) that some members trade for local currency, rather than doing work.

But be very cautious if a »community« is only after euros and dollars, I have a feeling that their local banknotes will soon be useless, even to wipe your ass, especially if printed on waxed glossy paper! ☺

But it is not good enough to stop here. Let's be bolder! For more than 50 years now we have had »credit money«, FIAT money, money backed by nothing and having intrinsic value of 0. How about creating the money with something to back it, to promise that even if the local currency system fails there is something to give to LC banknotes owners, something of real value?

LETS system has been designed to give means of exchange to people who basically have no other possessions to trade, except their work force and products they grow/make. But in the relatively rich western society people have possessions in the form of national currency (euro, dollar). What if the Community would invest national currency in buying useful items that their members could rent and pay a fee for rent with local currency? Now we are gaining two things. First, we have physical items that are owned by the Community and they should be, in any case, considered as something valuable that backs the local currency. That if the local currency system fails, these items can be traded back to owners of failed LC banknotes. This gives enormous strength to local currency as a store of value and thereby increases trust, that we will get at least something for our notes. And the second thing that we gain if Community invests its dollars and euros in useful items like hand and electrical tools, professional house cleaning devices, chainsaws, large community printers that are cheaper per copy than home printers, special electronics devices that are needed only occasionally like drones for professional aerial land photography, cargo trailers, van or a small truck, long ladders, small bulldozers, sports and camping equipment, community place for celebrations, farm machinery, gardening tools, portable cranes, grain mills, you name it, anything useful that is not economic to own by a single person or family, we have created a community that truly provides a useful SERVICE to its members. It becomes much more than just »currency issuer«, it starts to look more and more like a sovereign state! Any profit made from lending machinery and other items is then spent back into community by buying local services and products without creating inflation, but nevertheless increasing the speed of local money circulation.

What should be the unit of Positive LETS currency?

There is really only one possible unit that is meaningful – **an hour of work!**

But that doesn't mean that all work is paid 1 LC unit per hour. Some jobs are harder than others, some people have special skills that are very desirable, some just like to work slow ☺ ,... . Free market should set the price, that means people trading, set fair price for specific work by themselves.

This only means that the price of an AVERAGE hour of work done by community members or let's say users of local currency, should not deviate much from 1 unit of LC. If that happens, it means there is

something wrong with the system and it gives valuable feedback to most trustworthy individuals that »run« the Community's money issuing and to ALL users of local currency as well. If a currency is plentiful in circulation and thus losing value it means Community is spending too much! If a currency is tight and thus gaining value Community should spend more, find useful work for its members and wannabe members.

By keeping currency value stable and fixed to average worker hourly payment, joining different communities into common monetary union is greatly simplified!

Oh, I almost forgot to mention, because it is so self-evident to me: NO INTEREST ARE TO BE CHARGED ! Only minor suitable »reward« can be agreed and transferred directly between lender and borrower. The Community can only lend money that is already created. It must not »lend money into existence«!

Drawback of Positive LETS

I believe that this proposed system has only one drawback – **it requires centralized money issuer**, we can call it Community central bank.

Other than that I see only great possibilities for growth into possibly an even parallel monetary system that could end the current dominance of national currencies like the euro and the US dollar. And as the amount of circulating currency grows, we inevitably get the same amount of growth in the strength (and value) of the Community itself, possibly creating even larger and stronger communities than current national states!

Ain't that worth a try?



