

Basic Money Understandings

A New Perspective on Fiat Money and the Economy

Including the Role of Communities in the Analysis

Abstract-Introduction

There is a basic lack of understanding of the double entry bookkeeping implications of the creation and operation of fiat money, the kind of money we use today. As a result, there is an incomplete understanding of the implications of the inclusion of interest and profit in the structure of our money and economy.

The purpose of the following is to try to shed light on these issues. For the record, the seed of the following argument is not original with this author. It follows from a conversation with Bernard Lietaer before his death. Lietaer was a well known alternative currency theorist, who, among other things was the designer of the transition mechanism from the various European currencies to the Euro. However I take responsibility for the implications described here.

In the following I will attempt to describe the moral and ethical positions baked into our current money institutions. Other ways of creating and using money have different moral and ethical positions baked into them which will also be described. This study leads to the conclusion that provisioning of all of the users of money needs to be the prime directive of the monetary system, rather than profit, as is currently the case.

We will be using the term 'provisioning' throughout this paper. It means the trading and gifting which cares for the needs of all of its users and the earth. We will show why provisioning will have to replace profit as the prime directive of the money system for us to deal with the economic as well as the social and environmental issues we now face.

It will also be shown that when the role of the user community is acknowledged and brought into the accounting equations, everything on earth becomes connected in a circular economy, and has to be taken into account in our analysis of how money does, and can, work.

Some new and different words and concepts are necessary to completely describe our money relationships. New concepts and terms, as they are introduced and where they are important to the presentation, will appear in *italics*.

A Functional Description and Definition of Fiat Money

The *primary* purpose of money is to keep track of who has *contributed* how much to their community, and who has *consumed or otherwise withdrawn* how much from their community. This is done through *double entry bookkeeping*, the accounting of *debits* and *credits*.

The word 'community' as it will be used here, can be anything from a local group of friends, through local towns and townships, major cities, bio-regions and

countries, to the community of all people of the earth. We will describe the nested relationship between smaller communities and the larger communities of which we are a part.

To understand our current money, which is called fiat, or bookkeeping, money, first we need to describe what it is; how and why it is created, as well as how it is used.

You see, fiat money is not "stuff" in the usual sense. Fiat money is simply numbers in an accounting system. These numbers can be exchanged for goods/services-value. ('The terms 'value' and 'goods/services' will be used interchangeably here.)

Every money transaction is between two trading accounts, one of which is debited and the other credited. People can have trading accounts; businesses, governments, and other organizations can have trading accounts. The use of fiat money is an issue of balancing the debits and credits in all trading accounts.

Money is the name we give to credit numbers.

Money numbers may at times be represented by pieces of paper or coins, however it is the *numbers* in the accounting system that these *physical evidences represent* that is important.

Whether or not these numbers are noted in a ledger is not as important as their effect on the accounting system. Their effect on individual's accounts, or group accounts, is the same whether they are entered on a ledger or mediated with coins or paper money. Anyone can look in their billfold or purse and know how many money numbers they have.

Bottom line: It is the *value in trade* represented by *money numbers* that is recognized as *money*. Try to get your head around that fact before we continue.

In the money we use today, users can't authorize the creation of these numbers; only trade with money numbers, or coins and paper money that represent money numbers, authorized and created by an authority. Think about that for a moment.

Who is authorized to create these numbers, and how they are created, is what we will look into here, including alternatives. We will find that everyone can authorize the creation of their money numbers in a system different than ours.

It is easy to overlook the money creation process because we, its users, currently can't create money numbers; only an authority can authorize their creation. We thus have no experience to understand the process involved. It is not in the best interest of the current money number creators that this situation be changed.

Private Fiat Money

To understand fiat money, let's start out with the most simple money relationship; one between two individuals. We will then describe the transition from trade between individuals to public community money, and what makes them different.

Individual trade can have two forms:

- Immediate trade of value-goods/services, for equal value, or
- Trade of value with a promise by the buyer to the seller to provide equal value in the future.

The first case is straight forward. Each trader trades value for equal value from the other. However in the second case, the buyer makes a *commitment to provide equal value to the seller in the future in exchange for receiving value from the seller in the present*. In bookkeeping terms, the buyer gets a debit, a commitment to the seller, and immediate value. The seller gets a credit; the commitment of the buyer to provide equal value in the future.

The seller's claim on the buyer's commitment to provide equal value in the future is *private fiat money* created by its users. The system depends on trust. The seller has to trust that the buyer will keep their commitment. The buyer has to fulfill that trust. It is generally accepted that the value of the commitment will not increase or decrease over time.

Public Fiat Money

We can now move on to how and by whom *public fiat money* has been, and can be, created. Functionally there are three main classes of public fiat money; mutual fiat money, private bank authority created fiat money, and state authority created fiat money. The latter two are more complex than mutual money; similar in some ways and different in others.

We will start with the more simple system, mutual fiat money, and then move on to authority created money, describing its general nature, using what we have learned in the less complex mutual system. We will then describe the similarities and differences between bank authority fiat money and government authority fiat money, with references back to mutual money. Then we will deal with interest.

It is common among people who discuss different money systems to call mutual money 'credit money' and authority based money 'debt money'. We will find that these concepts are inadequate to define the relationships between creators and users in the different systems.

Public Mutual Fiat Money

Public mutual fiat money is similar to the second type of private fiat money where there is a commitment to provide value in the future. Again it is assumed that the value of commitments will not change over time. However public fiat money has another layer of complexity over that of individual barter.

This difference in complexity is that in public fiat mutual money systems, the buyer is *committed to the whole community*, to provide value to *anyone* there, not just to the seller. The commitment to the seller is that they have a *credit with the whole community* which can be used for a transaction with *anyone* there.

In short, the buyer gets their debit, and the seller gets their credit, *each with the community commons*. The community is acting as an *implicit mediator* between buyers and sellers; all of us in the community.

To *explicitly* represent a transaction with public mutual fiat money requires acknowledging an individual account for each community member, and a community commons account. An explicitly described transaction between community members involves five steps.

- In the first step, a *buyer* and *seller* meet as members of the community and agree on a transaction.

The *buyer* will receive value from the *seller* and in return makes a *commitment to the community* to provide *equal value* (represented by a *debit* in community money numbers) to *anyone in the community in the future*.

The *seller* will receive a *claim on the commitment* of the *community* (a *credit* in community money numbers) equal to their contribution to the community, in return for their *sale of value* to the *buyer*.

The buyer and seller *authorize the community* to *record* this transaction in its accounting system.

- In the second step, the *community commons* puts the *debit* authorized by the *buyer* in the *buyer's community account*, balanced by a *credit* in its *community commons current account*, *creating* the money numbers for the transaction.
- In the third closely related step, the community commons puts a *debit* in its *community commons current account* balanced by the *credit* authorized for the *seller* in the *sellers community account*, *issuing* those money numbers to the *seller*.
- In the fourth step, the community zeros out its *current account* by balancing its *credit* with the buyer and its *debit* with the seller, extinguishing both on its books.
- In the fifth step, at the same time, goods-services pass from the seller to the buyer, also implicitly mediated by the community.

The end result is that the buyer gets a debit with the community and their goods-services from the seller, and the seller gets a credit with the community, all mediated by the *community commons* which actually *creates* and *issues* the money numbers for the transaction. The community, and trust between members of the community, is again what makes this system work.

The *community commons current account*, by its nature, maintains a zero balance, because for every individual debit to the community from a buyer there is an equal credit for a seller. *For this reason it is easy to ignore and/or externalize the critical nature of the community commons in all transactions.*

Instead of users being required to maintain a positive balance in our accounts, as is currently required, in a mutual system user balances revolve around zero.

In a succeeding transaction the seller in the first transaction becomes a buyer, making a new *commitment* to the community; *creating new community money*, resulting in a negative entry in their community account, and extinguishing (at least some of) their money numbers, balanced by a positive entry in the community current account, creating new money numbers, which are issued to the new seller.

So in this system, money numbers are created and extinguished by authorization of community members as we make transactions. *Money is created, issued, and extinguished by the community.*

The money supply varies automatically with the need for economic trade. Limits on both negative and positive balances are developed and implemented by the user community to prevent system imbalance. Negative as well as positive numbers are spendable as long as they remain within the community agreed upon limits. The money supply, defined as total outstanding debits or credits (which are always equal) is thus regulated by system structure.

The spreading of commitments (debits) and claims on commitment (credits) from an individual to the community of money users is the characteristic that separates all public fiat money systems from barter. Again it is trust between members of the community that underlies system operation.

And again, a credit - a claim on the commitment of the community - spendable money numbers, is what we call money; in this case, specifically, *public mutual fiat money*.

A Few Bits of Mutual Money History

Public mutual fiat money has been practiced for at least 5,000 years, the use of [shubati](#) in Babylonia being the first known example. Tally sticks, used at least from the time of Christ to about 100 years ago followed the same practice. Notably tally sticks were [Coin of the Realm](#) in England from about 1,100 CE to 1,826.

The [system of traders](#) who moved between trade fairs in Europe from the time of the late Roman Empire until the use of modern banking gained an edge, is also an example of mutual fiat money. The WIR system¹ in Switzerland, created in the early 1930's, and which still operates there, is another.

Mutual Money Results and Implications

In mutual money systems, each of us is our own authority, authorizing transactions with our peers under the community rules that we have agreed on. These rules structurally create a circular economy because everyone is required to balance income and outgo.

1 Lietaer, Bernard, and Stephen Belgin, *New Money for a New World*, Qiterra Press, Boulder CO, 2012, pp 158-162

Mutual money is not designed for accumulation. No one is expected to get in debt or hoard money. Its purpose is simply to grease the wheels of trade, allowing all members of the community to be provisioned. Interest is not generally included in its creation or its use.

In mutual systems, if an individual or group needs capital or a loan (Both are a large claim on the commitment of the community) they must convince, and get the permission of the community commons which will hold the commitment. *Community members* have the *right* and *responsibility* to make the decision whether the investment is something that we want to be a part of, and support with our commitment. 'Community' in this case may be an institution of political government or an independent community group or organization.

When a community commits itself to a project, it takes that commitment as a negative balance which is kept in a separate *community commons asset-liability account*. The contract and expectation is that this negative balance will be repaid (extinguished) by the income of the project over time. So creating large sums of money explicitly becomes a function of community commitment and responsibility rather than being practiced as a transaction between a lending authority and a borrower, as is current practice.

Demurrage

In some mutual systems, demurrage has been practiced. Demurrage is a periodic charge on the balance in each account, transferred to the *community commons asset-liability account*. It may be seen as negative interest and results in money numbers disappearing from one's account (being transferred to the community commons) over time.

With demurrage, holding on to money becomes a liability. Traded goods-services are worth more in the future than the future value of money, so its users are encouraged to get rid of money, trading it for something of value, rather than saving it.

As a result, demurrage promotes long lasting products which keep their value, unlike interest bearing money. Repair and maintenance of things is promoted, rather than replacement with use-and-throw-away things. Things come to be seen as parts of a circular economy, rather than a mine, use and trash economy.

Historical examples of successful money systems that have included demurrage, although some were created by authorities, are the German Wara² and a stamp script developed in the town of Worgl, Austria³ in the late 1920s and early 1930s. At that time, there was extreme inflation in the national currency and the current money was practically useless.

Both of these efforts were highly effective but were closed down by their respective national governments, as they were seen as a threat to the national

² Lietaer, Bernard, *The Future of Money*, Century, 2001, ISBN 0 7162 8399 2, p 151

³ *Ibid*, p 153-5

banking systems. Lietaer⁴ proposes that had these initiatives not been shut down, the rise of Hitler could have been prevented.

A current example of mutual money is the [Chiemgauer](#), a local currency in southern Germany. This mutual trading system includes demurrage, which in addition to covering system expenses supports local non-profits. Chiemgauer has also built up a savings fund that is not subject to demurrage but pays no interest. Money in this fund is loaned out to local businesses, with no interest charge if all repayments are made on time.

One use of demurrage has been to cover system operation costs. Any surplus in the community asset-liability account, where demurrage accumulates, is available to be democratically gifted by the community for community needs.

Giftng in the Mutual Money Paradigm

At times, the community commons, or community members, may decide to gift at least some portion of a needed community expense because the result will improve their community.

There are two classes of gifting. Gifting *value* involves giving and receiving value without any money transaction. Gifting *money* involves the donor authorizing a negative entry in their account and a positive entry in the receiver's account, without any value traded, as always, mediated by the community.

Mutual money and gifting are communal devices and agreements, consciously working together. Gifting is an outlet for a surplus in ones account that is approaching, or has gone over the system limit. Again, this economic paradigm is circular in its operation, promoting provisioning rather than profit, and mimicking the operation of natural systems, with those who have a surplus sharing with those who have unmet needs.

A note on gifting and *taxes*. Taxes in a *mutual economy*, where the *users make the decisions on what money is to be created and issued for*, can be seen as *agreed upon organized gifting* as an integral part of the economy, to care for the community's needs, and the needs of its members who are not in a position to care for themselves.

Scale in Mutual Money Systems

In mutual systems, scale is attained by creating federations of local groups, rather than creating a top down structure. Federation decision making is driven by group members and member groups. Decisions are made by delegates subject to immediate recall if they do not represent their community, rather than any central authority.

The work of the economist [Elinor Ostrom](#), who studied commons, and what it takes for commons to operate effectively over the long term, is pertinent to

⁴ Ibid, p 152-3

money, which as described above is a community commons. Ostrom won the Nobel Prize in Economics in 2009 for her life of work in this area. She was the first woman to receive that prestigious prize.

We now turn to fiat money created and issued by an authority.

Characteristics of Fiat Money 'Created' and Issued by an Authority

A reminder here that there are two classes of authority money, that 'created' by the government, and that 'created' by a private banking system. We will first describe characteristics common to both of these systems, and then discuss their differences.

Authority created fiat money has additional layers of complexity in its creation, issuance and operation while *still retaining most of the basic characteristics of private and public mutual money*, at the same time duplicating and creating parts required by the new players and circumstances. The money 'creation' process is not fully understood in current theory, largely because of the externalization-omission of the role of the community commons in all money transactions.

We will find that money is not in fact 'created out of nothing'. This follows from the rule that for every credit, there is a corresponding debit. The reader will have to recognize this fact as we continue our discussion. The term money 'creation' will be used loosely to describe the actual process after it has been explained, sometimes in quotes as a reminder, and other times without.

It is also necessary to recognize the mediating role of the community in all transactions when we consider authority created money. In addition it is necessary to include the community's role in our understanding of how money numbers are authorized, created, issued, and used in trade.

Like mutual money, authority created money's value rests on the trust of its users that it can be traded for whatever its holder wants or needs, from anyone in the community, even though the authority enforces day to day system use.

Characteristics are added that make authority fiat money different and more complex than the mutual money described above. These characteristics include:

- Authority money involves new communities. Besides the *user community*, a money creation community, which can be a single individual or entity or an oligarchy, and a money manager community which is a lesser oligarchy, are introduced into money practice. *Both of these groups together comprise the money authority community*. How this plays out in terms of double entry bookkeeping will be described.
- In short, The money creation authority creates and issues the money supply. *It can be issued through payments or loans*.
- Money managers loan money already created by the money creator.

- For money users to have money numbers to trade with each other and pay our taxes, we must first:
 - borrow or earn them from the money creation authority,
 - earn them from other members of our user community who have borrowed or earned them from the money creation authority,
 - borrow them from a money manager who has borrowed or earned them,
 - or have them gifted to us.

Again, stop and think about that.
- Fiat money introduction is a multi-step process; somewhat analogous to a mutual money transaction. In general terms:
 - First money numbers are *authorized* by the authority. The process will be described below.
 - Second, money numbers are *created* by the authority. Again the process will be described. These processes are the same for private bank and government money creation.
 - Then the authority *issues the money* to members of the user community. This process is different for private bank and government issuance.
 - No value is traded by the authority in the creation and issuance of authority money.
- As a result of this structure users are expected to *always keep positive numbers in our accounts*. We have to get money before we can spend it. Overdrafts (negative numbers) are not tolerated. They would represent individual money creation. When this occurs, it is dealt with decisively.
- While users are not allowed to have negative money numbers, *no positive balance limit is set*, unlike in mutual systems.
- Since no positive balance limit is set, *circularity is not enforced* by system structure. Anyone is allowed to accumulate money, taking it out of circulation.
- The money supply consists of the money that the money authority(s) have created and issued.
- Since the size of the money supply is not automatically regulated by system structure, it must be monitored by the money creation authority in order to prevent inflation (when too much money is in circulation) or deflation (when not enough money is in circulation).
- How the money supply is regulated will be described. The process is different for bank created money than for government created money.

- The process of regulation is complicated by users accumulating money, and taking it out of active circulation.
- The money supply can also be manipulated by the money creation authority when it perceives this to be in its best interest.
- Taxes are levied by the community's government authority, (which may or may not also be the money creation authority) with [little or no input](#) from the users of money.
- Taxing and gifting are seen as *applications of money and philanthropy*, not an integral part of the monetary system, as is the case with mutual money.
- Borrowing and lending are introduced in money practice. *By becoming a lender one becomes a part of the money authority community*
- The borrowing and lending of money has traditionally involved interest. A portion of interest can be *unearned income*, commonly called *profit*; *income exceeding the value traded in a money transaction*. Later we will discuss interest in depth; when and where it is charged and its results for the economy.

A note on the use of the term 'profit' is necessary. In a sole proprietorship, where the proprietor works by themselves, profit represents the earned income of the proprietor. As businesses grow and turn into a pattern where there are multiple employees, earned income is paid in the form of wages. Profit becomes a surplus of income over the earned income of the members of the business. The nature and use of profit and unearned income will be discussed later, but needs to be acknowledged as an embedded part of authority money economic systems.

The following will attempt to further describe the similarities and differences between the two kinds of authority money, and the societal results of each system. These results will also be compared with those of mutual money.

The Authority Fiat Money Process

As noted above, the money creation process is the same for private bank created money and government created money.

A Very Short History

A bit of the history of the development of authority fiat money in the modern era is necessary to understand our present money system. In the Middle Ages, money consisted of precious metal coins. Goldsmiths, who used the metal in their work, started a side business of loaning their excess gold and silver, with interest.

Since they had vaults which were safe places to store gold and silver, customers also deposited their gold and silver coins with the goldsmith for safe keeping

when they were not needed for trade. Customers got a receipt from the goldsmith when they deposited their precious metal. It soon became easier for the customers to trade with the receipts rather than withdraw the metal.

At this point, the goldsmiths recognized that they could give out receipts for gold when they made a loan, rather than the precious metal coins. Then it was not a stretch to loan out more receipts than they held in gold.

This system worked for everyone in its own way, it increased the money supply beyond the limitations created by the finite amount of precious metals available, allowing for expansion of the money supply, and development of the economy and new technologies. It was also a 'gold mine', a source of income for the goldsmiths turned bankers, a great deal of which was functionally unearned income.

The caveat was that care had to be taken if more people wanted to retrieve their gold than a goldsmith held, which occasionally happened, causing bank failures. The goldsmiths learned to support each other to prevent any of their group members from failing.

This system came to be known as fractional reserve banking and lending. *The money loaned in excess of reserves was in fact fiat money 'created' by the bankers. We have now gotten to the point where the reserve requirement is zero, and our money is all created by fiat.*

Definitions and Terms

To describe the function of our present bank money system in terms that include the importance of the community in its creation, issuance and use, we need to re-assess how this process works.

We will describe two aspects of the power of money authorities; the function of *money 'creation'* and of *money management*. As noted earlier, *money creators* have gained the authority to both 'create' and issue money. *Money managers* have gained the authority to issue loans with money already created. Money users are limited to trade between themselves with money either earned or borrowed from a money authority.

As a result, we are now required to acknowledge two more communities, the *money creator community*, and the *money manager community*. *Both are members of the money authority community*. *Money creators* are also *money managers*.

So in order to simply but fully describe the authority money creation and operation process, it is necessary add new accounts to the user community current account, asset-liability account and individual accounts we already have discussed. The new accounts are for the use of both money creators and money managers.

Functionally we have to add a *money creator equity account*. Only money creators have access to this account. We also add a *money authority equity account*. Both *money creators* and *money managers* have access to this account. In addition we require *individual money authority equity accounts* for individual money creators (in systems where there are multiple money creators) and *individual money authority equity accounts for money managers*.

Members of the *money creation community* can have transactions that move through all of these accounts. They are money creators, money managers, and money users. *Money managers* have access to the money authority equity account and the money user accounts. They are both money managers and money users.

When *money creators* and *managers trade* with *money users* (or between themselves) for *value*, they follow the same rules used by the rest of us money users, each using their individual *user account*. They are also free to move money back and forth between their individual equity accounts and their individual user current accounts. Their operations between themselves and money users in creating and loaning money bring in new rules.

We money users can only trade among ourselves, and borrow or earn from the monetary authorities. At the same time, our *user community accounts remain as the foundation of system structure which are used by all for trade, with the caveat that balances must always be positive due to the changed money creation structure which will be explained*.

A note is necessary here to distinguish between small saver/investor/money managers, and money creators and large saver/investor/money managers, all of whom are de facto members of the money authority community. Small savers are attempting to save for their older years, using interest to multiply their savings. While there is a gray area in the distinction between *small savers* and *large savers and money creators*, the distinction is relevant.

In authority based economies, unlike in mutual economies, the economic community does not provide any, or adequate, services to retirees and others who are not in a position to provide for themselves. Their only alternative is to accumulate savings in the authority based market economy in which either you work at something that pays in the market, or you have little or no income to even cover daily expenses.

Small saver savings are largely spent in the user community in the saver's later years. Excesses are left for their descendants for similar use.

Large investors, on the other hand, are saving and accumulating much greater sums than they will need for their later years. To the extent that they have accumulated a very large sum of money, they therefore have greater power over the economy than small savers. They, along with the money

creators, are *major money authorities*, as they have sufficient resources to determine whether projects, wants and needs of private parties, and to some extent even the government, will be funded.

Money *creation*, money *management* and money *use for trade* make all of these distinctions necessary. It may seem complex at first, but will all become clearer as we explain how authority based money systems operate. We will use double entry accounting to show how all this works. We start with money authorization and creation.

Authority Fiat Money Authorization and Creation

As noted above, the introduction of authority fiat money is available only to a money creation authority. Again this authority may be a unitary private banking system, a member of an oligarchic private banking system, or a government. With an understanding of the role of the community and its community accounts, money is authorized and created as follows:

Parallel to the first step in mutual money creation, instead of a buyer and a seller in the user community authorizing a money creation transaction, *a money creation authority takes the place of both the mutual buyer and mutual seller in the user community, taking to itself the power to make this decision unilaterally. The authority authorizes the creation of money numbers. This is done with no commitment for reciprocal trade in goods or services with the user community.*

In the second step, parallel to the second step of mutual money creation, *the authority also unilaterally takes over the decision making power normally held by the user community in creating the money numbers, giving itself a credit, balanced by a debit which it may or may not carry in its books. The authority takes for itself the credit from this transaction without thought about where the debit lies.*

However based on the implicit mediating function of the user community market in all transactions effecting it, the authority's credit is *functionally* a credit for the authority, balanced by a debit levied against the user *community asset-liability account*. It is a loan or tax, (Bernard Lietaer considered it a tax) from the users to the authority.

This use of the user community asset-liability account is taken by, and only available for, money creators, by law, custom, or simple lack of knowledge. It must be emphasized that this action is taken by the money creation authority without the user community knowing what has happened.

Since no goods-services are traded in this transaction, the debit remains in the user community asset-liability account, just like a loan agreed upon by us users. *Because the existence and importance of the community accounts is currently unacknowledged and externalized, the resulting negative balance of the user community asset-liability account can be overlooked and ignored.*

The reality of the situation only appears when the system breaks down completely, usually through uncontrolled inflation. At that point we users lose our money and may lose property. We also lose any organized money system to trade with.

To be explicit, the double entry details of what actually happens in fiat money creation are as follows. The user community's asset-liability account is debited in the amount of the loan. This debit is balanced by a credit in the money creator community's equity account. If there is only one creator in this community, it remains there. If there are multiple creators, in another transaction, a debit is placed in the money creation community equity account balanced by a credit in the individual money creator's equity account transferring the credit to the individual money creator.

Again, this is a loan from the money user community to the authority; a charge levied by the authority and done without the user community's knowledge or permission. This transaction is made possible by not acknowledging and/or externalizing the role of the user community in all money transactions.

As far as it goes, [Richard Werner](#)'s definitive analysis of the current process of bank authority money creation follows the same argument as we make here. What in the current explanation is labeled a "client deposit" Werner exposes as "fictitious". This fictitious deposit can be seen as a fictitious loan from the borrower to the lender. It is held as a liability on the books of the bank.

What we have found, based on the function of the community of users in all money transactions, is that what Werner calls a fictitious client deposit in the current explanation of money creation in reality involves the authority becoming an uninvited proxy for the user community in originating a loan from their community asset-liability account to the authority's equity account.

This use of the community asset-liability account is an invention of authority created money. The authority has in practice taken unto itself a monopoly on the creation of money, and creating it as a liability of the user community without trading any goods or services in exchange. The negative balance in the user community asset-liability account is now equal to the money that has been created by the authority in addition to any commitments the community has itself made for its own use using money already created by the authority.

Money Use in the Authority Money Context

Trade transactions between the users (including money creators and managers) of already created authority money, are still mediated through the user community current account. These transactions, like those of mutual money, maintain a zero balance in that account as they are again simply pass through transactions even though everyone has to maintain a positive balance in their individual accounts.

For a user to be allowed to have a negative balance would involve them creating new money, which is forbidden. As noted, if it occurs it is dealt with decisively by the authority.

Meanwhile, the authority has privatized the money number creation process, taking it away from its users. The authority now has the power to determine what it will, and will not promote in the economy, by controlling who gets the money it creates, as well as how much it creates.

All this is made possible by ignoring the existence and pivotal importance of the user community accounts in the authority money creation process. It's major differences from mutual fiat money are that no value; goods or services, are traded in its creation, that money creation decisions are made by the authority rather than the users, and that the money supply is not automatically regulated.

As a final note, it must be noted that the value of money is no longer a consistent measure of value traded. It's value is determined to a great extent by its scarcity or abundance; how much of the total money pie in circulation will be allocated to a given trade. Scarce money gains in value; abundant money loses value. *It is in the interest of the banking community to maintain money scarcity in order that the value of its money might be maintained.*

We now turn to money *issuance*. We will first discuss bank money. It is the kind of fiat money we now use.

Bank Authority Fiat Money Issuance

Bank fiat money is the result of an agreement between a private banking system and the State, giving to the banking system the power to create and manage the money supply for the State and its citizens. The State enforces the system through its laws.

There are two classes of loan issuance in this system. The first involves the members of the *bank money creation authority* lending the money they borrowed from the user community asset-liability account in the money creation process back to members of the user community. Money is *issued* into the *user community* in this application through *loans* from *money 'creators'* to *users*.

The second class of loan issuance consists loans made by *money managers*; individuals and groups that have a surplus to loan but cannot create money, lending their surplus to users. A reminder; these two groups make up the money authority community.

This structure introduces two *kinds* of loans; loans *issued by money creators* and loans *issued by money managers*. We will discuss both types, noting similarities and differences. First we will discuss how money creators issue money they 'created' into use. We will then describe how money managers issue loans from funds already created.

For the present we will deal only with the principal of the loan. While interest will be noted here, the complications of the introduction of interest will be dealt with separately.

Bank Money Creator Money Issuance

A *money creator* (in this case a banker) and a money user *borrower* meet through our connections in our money user and money authority communities. We come to an agreement on the terms of the loan. These terms are patterned on the terms of loans currently being made. A borrower is by definition a member of the user community except where financial capitalism is practiced.

Again let us note that money creators have the power to determine what their money will be used for. Because they create the money supply and manage its quantity, their leverage on the economy is great.

The authority must '*create*' their credit before they can issue the loan. This is done through the money '*creation*' process described above with a debit in the user community asset-liability account and a credit in the money creator account.

The loan *issuing* process is as follows: The bank, as *lender*, puts the credit it has given itself itself to cover the principal of this loan into the *money authority equity account* which forwards it to the *money users current account*, which forwards it to the *borrower*.

In exchange, the borrower makes a commitment to repay the bank at a later date with interest, again mediated through the user community and money authority accounts. This is a strictly money transaction, with no current value traded except if specific collateral is temporarily held by the bank to cover the risk of non-payment. In any event, by law, the bank can take assets of the borrower if we are unable to repay the loan.

Repayments to the bank from the borrower on the *principal* of loans, are returned from the borrower through the *money user current account*, then through the *money authority equity account* and finally back to the *user asset/liability account* where the functional liability originated. This zeros out the original loan from the community of users to the money '*creation*' authority as well as the loan from the bank money '*creator*' to the individual user. In current practice repayment zeros out the fictitious deposit of the bank recognized by Werner in his explanation of current day money creation.

The banking system has simply become an intervening authority that decides what money will be created for and the conditions of its temporary issuance, charging interest for this service.

This is the slight of hand by which authority based money is created and issued, to be traded by the users in a private bank fiat money system. The income of the money creator in this sequence is the interest on the loan.

Money Manager Loan Issuance

The major difference between a money creator loan and a money manager loan is that the money manager lends existing money that they have accumulated rather than 'creating' the principal. The authority must have a surplus of money numbers in their account to cover the principal of the loan.

A money manger first meets a potential borrower through their connections between the user community and the money authority community as before. We come to agreement on the terms of a loan. These terms are again patterned on the terms of loans currently being made. As borrowers we usually have little wiggle room in setting these terms.

Once the terms of the loan have been agreed upon, the loan issuing process works as follows: The *lender* deposits a credit for the amount of the principal of the loan, *from their individual equity account* into the *money authority equity account* which forwards it to the *users current account*, which forwards it to the *borrower*, issuing the loan. It must be noted again here that money managers have the power to determine what their money will be used for.

In exchange, the *borrower* makes a commitment to repay the *lender* at a later date with interest, again mediated through the user community current account and the money authority equity account.

This is again a strictly money transaction, with no tangible value traded except if title to specific collateral is temporarily held by the lender to cover the risk of non-payment. In any case as above, by law, the lender can take assets of the borrower if the borrower is unable to repay the loan.

Repayments on loan *principal* are returned to the *lender* as the loan is repaid. This zeros out the debit for principal of the *borrower* to the *lender*. Repayments on *interest* are a separate matter, and as noted above, will be discussed later. The lender's income in this sequence again consists of the interest they receive.

Results of Bank Money Use

The user community *money supply* consists of the sum of community member's *outstanding loan balances* from the money creator. Because we can't create money, us users have to depend on money borrowed from the banking community in order to trade between ourselves. In order for there to be a reliable supply of money for us to trade with each other, loans from the authority continually have to be made because money is continually being extinguished in the loan repayment process.

If not enough loans are continually originated, there is insufficient money in the user economy for trade, causing deflation and stagnation. If too many loans are originated, inflation will occur, with more money chasing the same amount of value. In practice, this necessary balance demonstrates why unlimited helicopter money will inevitably produce inflation, and ultimately system breakdown.

The reason that inflation has not occurred currently is that almost all of the new money created has accumulated in the money authority community and is not available as a part of the user money supply for use in trade. Our user community, which is the real economy, still operates with a scarcity of money numbers, despite the fact that many new numbers are being created. Interest, which will be discussed later, will be shown to be the driver of these results.

The bottom line is that the community of users loans money to the bank money creation authority which has borrowed it without acknowledging its source; loans from our user community asset-liability account. In order to get the use of this money, we are required to borrow it back from the bank money creation authority with interest.

At the same time it has to be understood that there is no *net movement of money* from the money authority community to the money user community or vice versa due to the lending of *principal*. All money that is loaned is returned to the money authority. The addition of interest changes this.

Government Created Money Issuance

Government created money is a different agreement between the state and the private banking system. Now, the state takes on the authority to create the money supply. The private banking system is left in place to manage day to day relationships between the government and us citizen users.

The money authority community has now been divided into the State money creation authority, and the private money management authority community which includes the banks.

Governments *create* money in the same way that banks create it, through loans from the user community asset/liability account. In this case, the money numbers created can be characterized as a semi-permanent loan from the user community asset/liability account to the state, with *no interest* and *no repayment schedule*. The government has again taken over the money creation process from the users. And again no products or services are traded in this transaction.

These money numbers borrowed from the community asset/liability account in the money *creation* process are *issued* by being *paid* to members of the user community *in exchange for user goods/services provided to the state*. The government trades value from us citizen money users for the money numbers it has created through loans from our user community asset-liability account.

Us users still manage transactions between ourselves in the same manner as bank money, this time operating with money numbers created and enforced by the government.

Once sufficient money is in circulation, the state is now required to manage the money supply. Taxes paid to the government reduce the money supply, extinguishing existing government created money numbers, and government

spending increases it, creating new money numbers, maintaining a balance in the money supply.

Or if the money supply is assessed to be balanced with need, the state can simply spend the money it receives in taxes back into the economy. This is a choice open to the government. Again we must maintain positive balances in our individual user accounts, as we cannot create money and so must get money in able to have it to use.

As with bank money, if balance in the *money supply* is not maintained one of two results will follow. If an excess of money accumulates in the economy, it will be reflected in inflation, where more and more money is traded for a given amount of value. If insufficient money is created, deflation and stagnation will occur, with insufficient money available to meet market needs. The caveat concerning the effect of helicopter money is also valid here.

Private Banks as Money Managers in the Government Money Context

In proposed State created money systems, the for profit banks are allowed to continue as local intermediaries between us money users and the state, with the stipulation that they can only manage money that they have accumulated, not create new money. The caveat here is that the banks and other lenders are still authorized to make loans and charge interest, a lesser power than controlling the creation of money with interest, but still a power.

This power also still leaves banks and other lenders as gate keepers over what the money they have accumulated through their operations will be loaned and used for, guided by their primary directive to maximize unearned income; more money to lend.

Money and power still tend to gravitate to the banking core of the money authority community, even if more slowly than when it has the power of money creation. Under these conditions the banking community can gain more power than the government over the economy. And if our history of Continentals⁵ and Lincoln's Greenbacks⁶ is repeated (both were government created money) the banks will again use their power to manipulate the economy and regain the money creation power.

5 While the massive printing of counterfeit Continentals by the British, who controlled New York, was not the only thing that made for the runaway inflation of that currency during the Revolutionary War, it was a major factor. It has been [estimated](#) that there were as many counterfeit Continentals printed by the British in circulation as real ones.

6 The private banks did everything they could to end the use of Greenbacks. An example is this communication authorized by the Associated Bankers of New York, Philadelphia, and Boston to all bankers in the states in 1877. "It is advisable to do all in your power to sustain such prominent daily and weekly newspapers, especially in the Agricultural and Religious press, as will oppose the Greenback issue of paper money and that you will also withhold patronage from all applicants (for loans) who are not willing to oppose the government issue of money. To repeal the act creating bank notes, or to restore to circulation the government issue of money will be to provide the people with money and will therefore seriously affect our individual profits as bankers and lenders. See your congressman at once and engage him to support us, that we may control legislation."

Issues in Government Money Systems

- The assumption that the state authority is and always will be benevolent, seeing to it that everyone and everything in the productive economy is taken care of is not necessarily always valid. While everyone is normally cared for to a greater or lesser extent, because of the nature of bureaucratic authorities, it can't be guaranteed.
- To the extent that the state money creation authority spends its expenses back into the user community it does not promote scarcity in the user community like bank authority money does. And in this system, the whole money supply doesn't have to be continually replaced by new loans as a result of previous loans being repaid.
- If the state siphons off money for imperial projects, or its own use, which do not return money to the user community current account, that account will become unbalanced, just as in bank money systems.
- Since individual and group money accumulation is not controlled, money that is accumulated is taken out of circulation, not available for trade, reducing the working money supply; a complication in money supply management.

The bottom line here is that the state has borrowed money from us citizen money users with no payback schedule. Then we are required to earn it back, without having our loan to the government extinguished, in order to have money to trade between ourselves and pay our taxes levied by the government. The semi-permanent money supply created by our loan gives us community members a money supply to trade between ourselves. Private banks are left in place, and accumulate money to lend to users who want to get temporary claims on commitment (money loans) over and above what they have earned.

We now move on to the role of interest in authority money practice.

Interest

The interest part of a loan must be analyzed separately from the principal described above. It moves money in its own unique way. Interest and dividends are a characteristic of loans, bonds, investments and other time based money instruments. For simplicity, only loans will be discussed here. The remaining instruments have similar outcomes.

Classes of Interest Bearing Loans

Interest bearing loans can be made by a *bank* as a part of the *money creation* process in bank created money systems, or by a *money manager* who has a *surplus to loan* in any authority money system. Money managers include individuals, businesses, and other organizations.

Remember, governments do not generally loan money. Governments generally issue money by paying users for their goods or services. So governments are not normally involved in the interest process except in the case where taxes are not paid in time.

If taxes are not paid on time, they are subject to interest. And it must be acknowledged that recently government loans are becoming more common. We will concentrate on bank money system loans because they are what we deal with in the present system, with the understanding that the same rules apply to government loans and tax arrears.

Again, *loans* made by *money creators* are a result of their ability to create money. Loans made by *money managers* depend on the practice of money accumulation, caused by the lack of a limit on positive balances, that is a part of authority money systems rules (or lack thereof). By the fact of becoming a lender one functions as a member of the money authority community.

Money authorities, both money creators and money managers, *issue interest bearing loans* through *their money authority community equity account*, then through the *money user community current account* to its members. The commitment and claim on commitment are between a user and an authority, but still mediated through the user current account and the money authority equity account. In contrast, remember, in a mutual money system, credit; a large claim on the community, is a matter of community commitment recorded in the user community asset-liability account.

Interest Characteristics

Interest has two characteristics that we must understand which make it different than other money transactions. First, it involves money having the intrinsic characteristic of multiplying over time. A bit of history will be related to understand how this originated. Second, in its operation it involves payments that move money back and forth between the user community current account and its members, and the money authority equity account and its members.

First, the short history to understand the justification of interest, and its multiplication.

A Little History and Background of Money Multiplication

To our best archaeological knowledge, interest began to be practiced in Mesopotamia some 5,000 years ago, in the same era as *shubati* were used for trade between citizens. At that time taxes were paid in measures of grain or numbers of livestock. The *gur*, a measure of grain, became a unit of money.

If the growers in this rural economy could make use of the gifts of the soil, the sun, and the rain, as well as their labor time, to reproduce grain or animals, the authority, who created official money numbers, assumed they had the right to have money debts due to them reproduce over time as well. The assumption was

that money numbers should grow and reproduce themselves like the commodities they represented. The fact that money numbers do not require work to tend, and do not rot like grain, or die like livestock, was not considered.

Taxes had to be paid to extinguish the tax money numbers 'created' and assessed by the authority. If they were not paid on time, more grain or livestock had to be delivered to the authority, based on the lateness of the payment.

However just or unjust this logic may seem, it stuck, as it was the creators of the money numbers, the political authorities of the time, who made the rules. Authority based money still follows the logic of including interest among its definitions and governments still charge interest on delinquent taxes.

Interestingly, [shubati](#), the alternate user created mutual money of the time did not, as far as is known from the historical record, charge or draw interest. There, as in a number of places through history, discounting, which will be discussed later, was practiced where appropriate.

So unlike all of the transactions that we have discussed so far here, if I have money numbers and allow someone else to use them for a time, I have been given the right to get more money numbers back in return for this right of use.

Interest is charged as a rate, a percentage of the amount of the principal of the loan for each unit of time. The final debt incurred by the borrower is not generally discussed at the time of signing contracts. It will vary according to whether scheduled payments are made early, on time, or late.

In its conventional usage, interest is compounded, resulting in the *value equivalent* of the principal plus interest increasing at an *exponential rate*. The exponential rate is caused by the fact that the interest charge in each time period is based on the new value equivalent of the principal at the beginning of that time period after interest from the last period has been added. Since the principal is now greater, the interest amount is greater in each time period.

This increased value equivalent is exclusively a result of the passage of time, rather than any *tangible* value *necessarily* being added. Interest growth involves the addition of greater and greater commitments and claims on commitment over time.

Interest and its Effect on Money Movement and Distribution

The interest bearing loan process works as follows. A lender and a borrower meet through their connections in their money user and money authority communities, now acknowledging that interest is a part of the loan agreement. They come to agreement on the terms of the loan.

Interest is a debit-credit transaction, linked to the principal of a loan. It creates a *credit*, a claim on commitment of the lender *charged* to the borrower, *the debtor at the end of each time period agreed upon*.

In paying this debt, the borrower authorizes the user community account to debit their personal account, and credit the community account which forwards the money to the money authority equity account and thus to the lender. No new money is created for this transaction, it *uses money already created and in the user's account*.

When the user community forwards this money to the authority community's equity account, there is no transaction coming back through the community account to balance it, as there would be in a mutual transaction. This creates a negative balance, a deficit, in the user community current account.

The result is a decreased balance in the *user community money supply*. The *money authority equity account* and its users now have a surplus. The details and implications of this money movement will be discussed now.

The Interest Process; Money Flow

At the time of the loan agreement, the credit representing the *principal* of the loan is provided by the money creator or manager to the borrower via the money authority equity account and the user community current account. As noted earlier, *principal* is returned by the same path in the repayment process. There is no net flow of money from one of these accounts to the other.

Meanwhile interest payments flow only one way from the borrower's community current account, through the community current account to the money authority equity account. The *payments for interest* always simply go to the *lender's individual money authority equity account*.

Payments of interest are in excess of the initial principal payment of the lender to the borrower, and are the lender's income as a result of the loan agreement. However this of money causes the decrease in the user community money supply mentioned above, resulting in money scarcity there. These payments increase the money supply of the money authorities as well, resulting in a money surplus there. This effect is moderated by another kind of transaction.

To the extent that the *interest money* received by the lender/money authority in the loan payback process is *spent* in the productive *user community* in return for goods or services, the lender is also acting as a member of the user community. They can transfer money numbers from their individual money authority equity account to their user community current account, and pay for goods/services they want through that account to a seller of value in the productive community. This somewhat decreases the scarcity of money in the user community money supply as well as the surplus in the money authority money supply.

The remaining interest money remains in the equity account of the lender. The larger and longer the term of the loan and the greater the interest rate, the smaller the portion of it is returned to the user community by spending there, and the larger is the portion that is accumulated in the money authority money

supply. Much of this money is unearned income, although the correlation is not necessarily exact.

This portion of interest on all loans has been siphoned off from members of the user community to members of the money authority community. The result for the user community is that there is less money in their money supply than is due to the money authority community. Remember, the user community money supply consists of the principal that we borrowed from the money authority community. What we owe is principal plus interest minus what has been returned through purchases by members of the money authority community from members of our user community. The community money supply is less than what we community members owe to members of the money authority community.

In other words, as a group we owe more money to the money authority community than we have available as a group. We also have a scarcity of money to trade with between ourselves. All of this is a result of system structure.

In order to cover this exponentially growing deficit in the money user current account, created by an exponentially growing interest load, *the total money supply* (which is the sum of our current outstanding loans plus the money authorities money assets) *must grow at an exponential rate* to prevent system breakdown. *This is the underlying reason why growth in the economy is seen by Economists as necessary in money systems that include interest in their definitions.*

There are a number of ways that the resulting scarcity is dealt with in order to prevent system breakdown. The easiest way, to deal with scarcity is for the user community members to constantly take out more and bigger loans to buy more and more stuff in order to replenish and add to the user community account at an exponential rate, so that everyone can pay back both principal and interest.

The effects of the necessary growth in the money supply can to some extent be mitigated by inflation in the short to medium term, allowing the *money supply to grow exponentially* with *no, or less, growth in the economy*, the function of controlled inflation. However in the longer term, the need for exponential money supply growth has its limits. Constant exponential growth of money numbers is not feasible in the long term in a finite economy.

Over time there is insufficient money in the user community to buy more stuff, because demand can not continue to increase exponentially forever in an economy that is finite and money is scarce. This sets the stage for the down side of a business cycle, the second method of dealing with the deficit in the user community current account created by interest.

The money authority community slows lending because it sees some users are unable to repay their loans; the risk of making loans has increased. This accentuates the scarcity of money in the user economy which depends on constant loans for its money supply.

Because of the lack of money in the user community, a number of users are required to go bankrupt or default on their loans so that the rest have sufficient money to pay both interest and principal on theirs. This creates competition and a fight between users to see who can pay all of their debts, and who will lose what physical assets they have. Community is destroyed in this process.

As a result of defaults, the remaining money debts of those who lost their assets are written off; canceled. Cancellation of the debt for *principal* cancels the remaining *liability* due to the principal of the loan in the user community money supply as well as the remaining principal claim on commitment of the lender. Cancellation of interest cancels remaining payments to the lender.

Payments already made by the borrower for principal and interest are forfeited, as well as property claimed by the lender. *Canceling the remaining debt for principal lowers the negative balance in the user current account, and with that the liability against the user money supply, making it more possible for the remaining debtors to pay their debts with the money remaining in their money supply.*

Money *managers* lose the remaining money they had lent, as well as continuing interest income. A money creator only loses the continued interest income as they had no out of pocket expense for the principal. Remember, they had 'created' the principal 'out of nothing' as a loan from the user asset-liability account. However under present rules they can go bankrupt, as they hold the liability on their books. If it was acknowledged that they had borrowed it from the users, they would instead owe it back to the the user asset liability account.

Meanwhile, major money authorities are able to buy the assets pledged against defaulted loans in the government managed foreclosure auctions, at bargain basement prices, using the unearned surplus of money that they have accumulated through the money authority equity account.

The result is greater concentration of ownership and power in the hands of the major money authorities with the passage of each business cycle. Henry George called receivers of this money and assets [rentiers](#). That term is again being used in some circles.

Thus, for-profit bank authority created interest bearing fiat money sets up a two tier economy, with the lower tier consisting of the productive user community, and the upper tier consisting of the money authority community and especially the *major money authorities*.

To sum up, and add a few details, In a bank authority money system the following results follow.

- For system stability the money supply has to grow at an exponential rate.
- As a result, more and larger sums are required to be continually borrowed by members of the user economy or there won't be sufficient money in circulation for all users to pay both principal and interest.

- There is always a chronic scarcity of money in the productive user community. The banking community assures this to maintain the value of the currency.
- Scarcity of money in the user economy is the driver of economic cycles.
- When the money supply can't keep up with exponential growth, so that both principal and interest can be paid by everyone to prevent system break down, a recession or major depression occurs.
- When this occurs some members of the user community are forced to declare bankruptcy or default on loans in order that other users have sufficient money to make their payments.
- The money authority community takes ownership of the collateral for failed loans at bargain basement prices, moving wealth from the user community to the major money authorities.
- Limited inflation can to some extent offset the need for growth in the economy, as more money is created to chase the same amount of economic activity. This is the functional reason that economists accept and promote limited inflation in the economy.
- Inflation is another form of tax on the productive user community. Its effect is that over time money loses its value. If inflation becomes high, it can be an aid to debtors, as they can pay their debts with money that has less value if it is available to them.
- Money, growing exponentially over time through interest, can have more future value than the future value of goods traded for it in the present.
- Goods traded must grow in value as fast as the rate of interest based exponential money growth to even maintain their value.
- Real stuff tends to depreciate, rather than appreciate like compound interest money does, making money the preferred instrument for savings and increasing money authority wealth.
- Especially in the down side of the business cycle, scarcity in the user community leads to the felt need to take care of self without concern for the needs of others, fighting for the scarce money available. Community is destroyed.
- The *major money authorities* always win: gaining money in good times or assets in bad times, and the power to control the economy all the time, so long as the system continues.
- Because long term infinite growth is not possible in a finite economy, this organization of the economy ultimately leads to major failures like the fall of the Roman Empire, and the incipient disintegration of the present world economy.

In short, the system transfers money, physical property, and power from the user community to the major money authorities because of its structure.

Users are encouraged to join the money management community in a small way to assure our comfortable retirement, because the system does not assure that this will occur.

Small investors (including myself) are unwitting participants in this system, brought into the money management authority community by loaning money and/or investing money (a form of loan of money with limited repayment possibilities and variable interest).

In doing so, we become supporters of the system, assuring its perpetuation even though it is ultimately not in our best interest over the long term.

At the same time this looks good to us small savers and investors for near term unearned income in the economy of scarcity that has been introduced. It justifies in our minds the continuation of the whole system that structurally moves money from the user community to the money authority community, and ultimately concentrates it in the hands of the major money authorities.

Discounting

Interest is not usually found in mutual money systems. What has been practiced instead, when appropriate, is discounting. Historically, there have been two kinds of discounting, one initiated by the buyer, and the other initiated by the seller.

Buyer initiated discounting involves the buyer accepting less value in trade than what they have paid in their contract so that an intermediary can be paid the difference for added value such as risk taking, connecting the seller with the buyer, and/or delivery. This is the kind of discounting that was used by the mutual traders in the early middle ages.

Buyer initiated discounting can be abused, but is not an instrument to be held an unlimited time for exponentially increasing value like compound interest.

Seller initiated discounting involves the seller receiving less money than the face value of their contract in the present, and being responsible for paying the full amount at the maturation date in the future. It is a form of loan, with discounting replacing interest, usually with a time based charge which mimics interest. This is a practice used by commercial enterprises today.

Transition Initiatives

Credit unions, while they are usually centrally managed with little user input, are structurally owned by their patrons and operate in their patron's interest. They operate as non-profits. As a result they don't cause the condition of scarcity in the user community current account created by for-profit money authority institutions. They do not use the equity account that moves assets to private investors. Claims on commitment return to the user commons. Exponential

growth in the user economy money supply is therefore not structurally created over time by the money creation process where these institutions are in place.

A National government money system does not necessarily contribute to exponential growth in the money creation process. To the extent that its spending is for goods and services for the citizen users and provides paid work for the citizens, it keeps the money in circulation among them. Spending that does not benefit the citizens, like interventions in other countries and spending for the benefit of bureaucrats and their friends in big business and finance, remove money from the user economy.

However the still existing private for profit banks receive unearned income from interest, and corporations receive money as unearned income, moving money from the current user account to the money authority equity account and its members. As noted earlier, in the medium to long term, this leads to increased power of the for profit banks as well as corporations. These operations are impediments toward a democratic money paradigm.

The current predicament

The major money authorities were bailed out in 2008, after a bubble they had created burst. This bubble had no inherent value because it was not earned. It's money was gained through unearned income received through bets, and bets on bets, that were structurally created to produce winnings. This same group is again being bailed out now, with massive amounts of money and credit, while the productive community is getting little aid, and is living in an economy of scarcity.

The exception to scarcity in the productive community is that companies and industries that are tied in with the money authority community and politicians, are receiving funds while minority and small businesses as well as individuals, are largely being left out.

The major reason we have not had an inflationary breakdown currently is that most of the added money created to maintain the necessary exponential money supply growth required by the system to prevent breakdown has been directed to the financial community, which is a growing cancer on the economy. This has prevented short term breakdown, but makes the future final system failure more catastrophic.

The result is that the current money authorities are left the opening to take advantage of a massive number of loan foreclosures and bankruptcies, buying up the assets of money users, and consolidating their power over the economy and polity. Political democracy is in danger.

Conclusions

There are a number of conclusions that would otherwise be controversial that follow from the above analysis. Foremost is that the present system is not

sustainable, and in addition does not serve the needs of its users, instead concentrating wealth.

The way out of this conundrum, in the eyes of this writer, requires a total revamp of the economy. This may seem impossible; not in the realm of feasibility. However in the face of major breakdown, there may well be no alternative, except the drive for fascism, the present direction of the economy; fascism being defined by Benito Mussolini (the Fascist Prime Minister of Italy from 1922 to 1943) as the combining of government and corporate power. Fascism is not compatible with the value of provisioning money's users, recognized as the goal at the beginning of this presentation.

We have to move from the current culture that promotes and relies structurally on first concentrating on *taking care of self in an economy of scarcity, promoted by the present money system*, to a culture that concentrates as its prime directive on *taking care of everyone, and the earth that we depend on for our existence here*. The goal is caring for each other in community for all. Our money and economic system will need to be consistent with that end.

We must understand the incompatibility between our present money structures, habits and institutions and a culture that has as its primary directive the provisioning and caring for all of its community members; the earth and all that is in, on, and above it. The actions and habits baked into our present money are self interest and unearned income. That is incompatible with the prime directive necessary for a surviving and thriving culture on this earth.

To make our money consistent with the caring prime directive, it will be necessary to move to mutual money, which requires and promotes, by its structure, the inclusion of everyone and everything in our personal as well as our community money decisions; balancing personal and local community needs with the needs of the earth and all life within it. To make this work, we are all required to learn to become responsible leaders, working together, rather than following leaders who are promoting their personal objectives.

One of the characteristics of our present money/economic system is that it promotes a mine-use-throw away economy. This is a result of the motive to gain unearned income. You can sell more stuff and make more money if it has to be thrown away and replaced on a regular basis rather than being repairable. Developing a money system that instead reinforces a durable circular economy is an integral part of the task before us. Again, mutual money has the values for that task baked into its structure.

Because of the fact that the major money authorities are currently taking care of themselves at the expense of the productive economy, the only really good alternative is to turn off the spigot to that community and allow *it* to go bankrupt, which it will do without continued injections of money to sustain its need for exponential growth.

As noted above, much of its money has been accumulated through bets on situations the money managers have manipulated to guarantee unearned income for themselves resulting in a growing debt of government and the user community to them.

Getting rid of this unearned asset (credit), as well as the balancing liability (debit) on the part of the government and the productive user community is a necessary step in righting the present situation. It can only be done by creating an alternative money system that makes their services unnecessary and their money useless.

At the same time we must honor the contributions of us working people who have contributed to funds for our old age, us small saver unwitting partners. We have a special responsibility to see to it that while we are taken care of, everyone else in the larger community of humans on earth is also equally taken cared for.

The banking community will have to be replaced by the people, who will be required to pick up the pieces and start over again. Whether this can be done through the government is currently up in the air, as many parts of it are currently bought and paid for by the same powers that are driving continuation of the current system.

One issue is clear. The institution of interest needs to be done away with. It is the cornerstone of the concept of justifying unearned income-profit which is not compatible with a provisioning economy. Unearned income is the driver of the individual accumulation of money which is itself the cause of inequality.

We the people need to democratize the creation and group use of money. Creating and promoting mutual money is the method required, moving decision making to the lowest level consistent with the use of money, and recognizing the requirement of limiting accumulation of money. Seeking unearned income will have to be replaced by balancing needs and abilities as the driver of the market.

More generally, in order to create an economy that does not require exponential growth, profit exceeding value traded will have to be removed from the rules of money creation and operation. It will also require a rethinking of our relationship with the land and the stuff we have made and built. We need to consider replacing the institution of ownership with the institution of stewardship, giving up control, and replacing it with the responsibility of caring for our land that is seen as a part of the commons.

This will require learning to share resources instead of accumulating individual wealth, at the same time taking care of those who can't provide for themselves. Financial services that are still necessary will have to depend on demurrage and competitive fees for service to cover their costs.

Democratizing tax levying decisions is an area that needs attention as well, to democratize the polity as well as the economy. Getting rid of the military

complex, an authority based empire that enforces the present economic empire aspirations of big money, big business and big government authorities is another necessity.

On the other side of taxation and unnecessary expenses paid for with taxes, [participatory budgeting](#) can democratize the group spending process. Part of the community budgeting process will necessarily be decision making concerning how much money *needs to be raised through taxes* to cover *necessary community needs*, from education to health and other social services, as well as building and maintaining necessary physical community infrastructure, including some niceties, especially when there is a surplus to accommodate them.

Communities can learn to take care of local needs, and decide what exports are possible and imports necessary to balance community import/export budgets. Community based and managed money will give a measure to make it possible for each community to have a measure of local imports and exports so that they can be balanced.

It has to be understood that the movement of money away from local communities to the centers of power has been occurring in our economy. The depopulation of rural communities, and the consolidation of property in rural areas are a symptoms of not having the knowledge and power to manage the local economy.

When a community is unable to meet its needs because of some calamity, communities with greater relevant resources are in a position to aid, and feel the importance of this action.

Financial services need to be reinforced at the local level, with democratic decision making in their operation. [Credit unions](#) have a place in this, as well as the possibility of [postal bank offices](#) if given the power to create local money under the democratic supervision of their users. Richard Werner suggests a network of non-profit banks like the German Sparkassen public banks.

As noted, while some of these *transitional* institutions still operate on the authority model, they at least do not siphon profit away from the user community, because the income from interest is all returned through the institution to the user community, even though it may have to be earned again to get there.

Thus, these institutions do not create the scarcity of money found in the private bank model even though money must be borrowed or earned again from the authority to get it back into circulation. This has to be understood as a tax. With this caveat, these institutions have the potential to become a part of the transition toward more democratic and circular mutual money.

Nesting of money institutions, as suggested by the work of [Elinor Ostrom](#) needs to be given serious consideration. Her work documents the fact that the

commons is not necessarily a tragedy. Money and banking need to be recognized as a community commons, which her work explores. Provisioning, rather than profit, is the primary directive end that needs to be kept in sight.

Closing Thoughts

When I was introduced to double entry bookkeeping in the 1970's while managing co-op housing apartments, I was struck by, and was never given a satisfactory answer to, why equity appeared on the expense (liability) side of the balance sheet equation: $Assets = Liabilities + Net Equity$.

It has only been recently as I studied money from the point of view of the community that I recognized that the reason for this is that equity is a liability (debit) toward the user community commons that has no claimant, resulting from income that is in excess of expenses. That income can therefore be privatized and taken by the current claimant 'owner' as 'equity' (a credit). This is the essence of what makes Capitalism work.

Again, us unwitting partners are drawn into this paradigm because it is the only way to assure that we can meet our expenses as we age and can no longer contribute as much to an economy where the community doesn't care for its own. In the new economy, the money currently spent on military 'security' can instead be available for true security of the people.

Another note on equity in money is especially appropriate here. The concept of equity dates back to English law in the Middle Ages. A separate equity court system was set up to provide relief to those who were not protected by the common law. Equity is still a part of English, and American law.

However the first use of this term as a replacement name for the profit-loss account in accounting was in 1901, according to the Oxford English Dictionary. As late as 1896 Cayley's [Principles of Book-Keeping by Double Entry](#) , a classic of the time, used the term profit-loss.

One has to surmise that the term 'equity' was adopted as a replacement for 'profit-loss' at a time when Populists were protesting the great profits of the industrialists, in order to make profit seem equitable. Equity, used in this sense is just another term for unearned income.

Some theorists distinguish between [rentier](#) income and profit. Generally the unearned income portion of profit is seen as legitimate, as it is seen as the result of productive action, and rentier income is seen as the result of no productive action. From the point of view of monetary theory that includes the pivotal place of the user community, this distinction no longer exists. Both transfer money from the user community to the money authority community.

We must confront the institutional habits and structures that allow and promote accumulating these takings of unearned income; interest, profit, equity. All of

these are transfers of money, value and power from the user community to the money authority community.

The concept of the legitimacy of unearned income accumulation by persons and subgroups of the population is the root of capitalism. The illegitimacy of this concept must be acknowledged in order that an economy of provisioning, rather than profit can come about.

New ways of perceiving our place on the commons which is this earth, sharing it with all of the rest of the life here will be necessary. We will all be required to seek and find a new relationship with the earth, learning that we are stewards of the earth, not owners of pieces of what is in reality a community commons.

Those of us who are the unwitting partners mentioned earlier will have to learn to interact with and depend on the community rather than feeling the necessity of individual accumulation of money for our retirement. We need to acknowledge that our personal accumulation of money is privatizing value from the current user community account as well as the resources of the earth, and accumulating it for our personal use through the money authority equity account. Those among us who are retired may also find new ways to contribute, appropriate to our time, energy, and abilities.

Those who have gained immense amounts of money and physical wealth through profit and therefore control the present economy have to be dethroned, by extinguishing the monetary wealth which they have accumulated through profit, and re-allocating physical assets that they have accumulated, again through profit, to the commons. This will be a very painful but necessary process for those who have accumulated more than their fair share through unearned income.

Those who live on and/or work the land that they occupy may see little change, unless they have more than they need to produce their livelihood and contribute to the community. Their relationship to the land will turn more toward their stewardship responsibility rather than their inalienable ownership rights.

Various countries have had and do have systems for usufruct land tenure. Just a few examples: [Poland](#) has such laws currently. Mexico had the [Ejido](#) system before the coming of the Spaniards, and has practiced usufruct land tenure, on and off since. In the most recent change, that practice was largely eliminated by the North American Free Trade Agreement. While the Crown traditionally owned all land in [England](#), peasants were also traditionally given usufruct land rights.

Final Words

The down side to this analysis, if it is one, is that it depends on we the people learning and practicing working together across what are now lines of difference, to figure out how to take care of each other as well as the earth and its great variety of life that supports us.

Democracy requires democratic institutions as well as democratic citizens that operate them. Without either one, the overall system will fail.

The old unwritten law is that the more freedom we have, the greater is our responsibility to each other and the earth. We have to learn to be stewards and caretakers of each other and the earth that has supported us, so that the earth can continue to support us, along with all of the rest of the life here.

In peace, Paul Krumm