

# Towards an Economy in the Hands of the People: "Parallel Currencies in the Majority World"

Study of the Tianguis Tlaloc Local Currency System in Mexico City

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## Abstract

This paper is motivated by the idea of an appropriate economy that allows for the independent self-development of communities and economies at scale which can best be managed by those living within that community. The use of mutual credit parallel currency systems in providing a sound method for issuing interest-free credit currency as a tool in making this shift can be very beneficial for all concerned, giving the users of this currency increased ability to meet their needs through enhanced redistribution and cooperation mechanisms. The use of parallel currencies, whether in the minority or majority world provide new methods for practicing local economic development projects aimed at achieving the meeting of basic human needs, environmental restoration, ecological sustainability, social harmony and meaningful human economic activity.

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Stephen DeMeulenaere  
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Samples of the Tianguis Tlaloc local currency



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## Summary

The following is a presentation of research into the use of parallel currency systems in the majority world context. The first part of this report introduces the use and role of money in the conventional economy. The second part presents parallel currencies, exploring their benefits and potential disadvantages. The third part presents the two major parallel currency systems in the world today, the LETS and HOURS systems. In part four, we present the Participatory Action Research Project studying the Tianguis Tlaloc local currency system in Mexico City as a practical example of the application of parallel currency systems in a low-income country. In part five, we discuss the various factors in designing and implementing a parallel currency system in the majority world context.

### Objectives:

The overall objective of this report is to undertake a study on the development potential of community-based currency systems in lower-income countries. There are three specific objectives:

1. To study the extent to which the introduction of a Local Exchange Trading System (LETS) or Mutual Credit System is helpful to a particular community and its ability to ameliorate the difficulties faced by the community.
2. To determine the degree of participation by citizens within the community, social and technological barriers to diffusion and use; and
3. To determine what the experience of administering the system teaches about community needs and the limits/possibilities of a locally-developed and implemented community currency system in meeting those needs.

### Conclusion

The use of parallel currency systems in practicing local/community economic development offer numerous potential economic, social and ecological benefits resulting from the mobilization of existing resources.

With few barriers to diffusion and use, we expect parallel currency to continue to spread and develop on all continents. We believe these systems will give citizens the ability to ameliorate difficulties faced by themselves, their families and their community.

## Introduction

In the second half of the twentieth century, we have witnessed an unprecedented globalization of financial and political institutions, driven by large-scale conflict, economic upheaval and technological advances. While the intention behind globalization is to reduce such instabilities and to increase cooperation between different cultures, it has resulted in the diminishing of the unique character of these cultures and the cultural homogenization and economic decline of the communities that comprise them in order to serve the global market.

As institutions become more and more globalized, and the ability of the nation-state to have autonomy over its economic and political affairs decreases, the pressure is being increased on regions, localities and communities to take charge of these affairs in the interests of their citizens. Unlike global institutions, to which people appear as faceless masses and numerical populations, regional and local governing bodies see people as names, faces and identities. Whereas most global leaders have little understanding of the lives of the populations that they control, local leaders see how their people live on a daily basis. The more globalized and supranational institutions become, the more local we must look to provide for the needs of people.

Technological and economic globalization has been occurring both in the so-called First and Third worlds, or in the "developed" and "developing" worlds, to such an extent that it is hard to find a label to distinguish between the "high-income" and the "low-income" countries. In the First world, we see elements of the Third, and in the Third world, we see elements of the First. We can hardly say that the First world is "developed", when it is clear that they are experiencing the same problems as those faced by "developing countries", and when many of these "developing countries" had advanced civilizations thousands of years ago. Certainly there is something wrong with the use of these terms.

In the last two decades, local organizations have begun to take charge of local development. Movements are underway to preserve the distinct character of local areas, and to build new economies from this speciality. This is changing the method of conducting "international development", from the old model of giving a mass of money, which made the "Third" world country itself the recipient of welfare, to the local organizations which, with a small contribution or from their own activities, are able to begin to take charge of their own economic affairs. The microcredit small loan circle program, pioneered by the Grameen Bank in Bangladesh is a powerful example of a community's ability to take control of their economy, and through it, their cultural and community life.

Drawing from the early history of human civilization, and from recent developments, many communities are beginning to introduce new economic systems to enhance trade in local areas. The use of parallel currencies are by no means new concepts. These systems complement the ground-breaking efforts of the Grameen Bank, and propose a number of different plans for increasing economic activity in a way that is controlled, in a way that is environmentally sound, in a way that meets the social needs of the people who live in that area, and in a way that harmonizes community cooperative and free-market competitive interests. Some of these new programs involve



the introduction of local currencies, currencies which circulate only at the local level, or only within a specific group of traders.

Parallel currency systems attempt to balance the influence of an "efficiency-based" global monetary system with an "equity-based" community economy, by issuing an interest-free currency with a value agreed to by the members as the medium of exchange.

However, much of the information that exists about local currencies is intended only for the "First" world and for organizations with easy access to high technology. Much of the information has been available only to speakers of English, and only through the Internet. Moreover, much of the information was too complex and theoretical to be easily understood and practically implemented by people without highly educated backgrounds. Although the knowledge of how to operate a local currency system without technology existed, it was not available in a form that did not require the use of technology. To this end, we constructed a web site at <http://ccdev.lets.net> to encourage groups to print and distribute information to those without access to computers or internet technology. This is now beginning to change.

In the last few years, a new branch has grown in the development of local currencies. Cross-linguistic transference, the translation of materials into a number of different languages, transfer of communication technology and relocation of experienced individuals to southern countries is leading a new drive to bring local currencies to what may more accurately be described as the "majority world".

The project to study the Tianguis Tlaloc in Mexico began in 1997 when Stephen DeMeulenaere was put in touch with Mr. Luis Lopezllera of the Promocion del Desarrollo Popular A.C., which operates the Tianguis Tlaloc local currency. Seeing that his organization needed some funding support, and that action research had not yet been done to assess the performance of the system, Stephen sought to initiate a research project to accomplish this. Thomas Greco, local economist and author of a number of books including "New Money for Healthy Communities", became interested in this project and joined into it as a consultant.

### **Parallel, Local and Community Currencies**

When describing a currency system which operates alongside the conventional national currency of a country, we use three terms to distinguish between them. Parallel currencies refer to currencies that operate separately or in combination with the national currency and are not limited to a specific local geographic area. Sometimes they are called "complementary" or "alternative" currencies. Government bond currencies, nationwide government-sponsored exchange systems and other large bodies which issue their own currencies would come under this title. This term is also convenient when speaking about all types of currencies that are used alongside the national currency.

Local currencies serve a specific geographic area, from a neighbourhood to a small town. Regional currencies may also be covered by this term. The bonds issued by Salta province in Argentina and the Hours currency system would fit in this category.

Community currency systems serve a specific social community defined by participation in the system. Generally, community currency systems are also localized, but the system is defined by its community which can be spread over a large geographical area. The LETS system and other mutual credit systems such as commercial trade exchanges would fit this definition.

We will be returning from time to time to these general definitions in the course of this paper.

## **The Challenge to Find Long-Term Solutions to the Problem of Poverty**

The United Nations Development Programme Report for 1997<sup>1</sup> presents the background to the poverty crisis in the majority world, and identifies key points for developing strategies to address poverty. They distinguish between income poverty and human poverty, income poverty meaning a low income, and human poverty meaning a material lack of basic goods and services. The report presents the following statistics:

- More than a quarter of the developing world's people still live in poverty as measured by the human poverty index that was introduced in the UN Development Programme's report.
- About a third of the world's population, 1.3 billion people, live on incomes of less than \$1 a day.
- South Asia has the most people affected by human poverty. It also has the largest number of people in income poverty: 515 million. Together, South Asia, East Asia and South-East Asia and the Pacific have more than 950 million of the 1.3 billion people who are income-poor.
- Sub-Saharan Africa has the highest proportion and the fastest growth of people in poverty. Some 220 million people in the region are income-poor. It is estimated that by 2000 half the people in Sub-Saharan Africa will be in income poverty.
- In Latin America and the Caribbean income poverty is more pervasive than human poverty, affecting 110 million people and growing.
- Eastern Europe and the countries of the Commonwealth of Independent States (CIS) have seen the greatest deterioration in the past decade. Income poverty has spread from a small part of their population to about a third with 120 million people living below a poverty line of \$4 a day.
- In industrial countries, more than 100 million people live below the income poverty line, set at half the individual median income with thirty-seven million jobless.

At a time in modern history when the capabilities for solving these problems is greater than ever before, new problems are arising to cause even further increases in poverty. The report presents slow economic growth, stagnation and even decline in some 100 developing and transition countries, continuing conflict in 30, mostly African, countries, the decline in meeting human needs in key areas such as nutrition, the continued increase in HIV/AIDS cases as the symptoms of global problems.

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<sup>1</sup>United Nations Development Programme. 1997 Report on Human Development to Eradicate Poverty. <http://www.undp.org/undp/hdro/97.htm>

The report's data shows that the human development index declined in 30 countries, more than during any year since 1990. Between 1987 and 1993 the number of people with incomes of less than \$1 a day increased by almost 100 million to 1.3 billion and growing.

This is also true in industrial countries where unemployment is rising, and traditional protections against poverty are being undermined by pressures on public spending and welfare reform. In some wealthy industrial countries, such as the United Kingdom and the United States, poverty has risen considerably and is expected to rise further.

From a human development perspective, poverty means the denial of choices and opportunities that make life worth living. Poverty is more than a lack of what is materially necessary, but includes the denial of opportunities, choices and the right to live a long, peaceful and creative life, free to enjoy the fruits of one's labour, a decent standard of living, dignity, self-esteem and respect.

Comparing the UN's Human Poverty Index (HPI) with income measures of poverty based on a \$1-a-day poverty line reveals that income poverty and human poverty are pervasive, affecting a quarter to a third of the people in the majority world. Sub-Saharan Africa and South Asia have the highest incidence of both income and human poverty at about 40% of their population affected. While many Middle-Eastern states have made remarkable progress in reducing income poverty, now a mere 4%, they face a large backlog of human poverty affecting 32% of their population. Latin America and the Caribbean, with a Human Poverty Index of 15%, has reduced human poverty in many countries, but income poverty is still affecting 24% of their population.

The report identifies six major priorities for action to reduce poverty in the majority world:

1. Empowering women and men to participate in decisions that affect their lives and to enable them to build on their strengths and their social, political, environmental, economic and personal assets. A people-centered strategy for eradicating poverty must start by building the assets of the poor by securing the civil, political and economic rights of citizens, reforms that enable people in poverty to acquire assets such as housing and land, education, health care and proper sanitation, and social safety nets to rescue people from disaster and to give people the tools they need to help themselves.
2. Ensuring gender equality to empower women in the struggle to eradicate poverty. Women are on the front line, in their homes and communities, of efforts to escape poverty, but are denied a role in decision-making in political, social and economic decisions in countries where women are treated as inferior to men.
3. Economic development in favour of the poor is essential to reducing poverty. The report calls for faster growth in poor countries, not necessarily industrial growth, but development in favour of the poor. "In the past 15-20 years more than 100 developing and transition countries have suffered disastrous failures in growth and deeper and more prolonged cuts in living standards than anything experienced in the industrial countries during the Great Depression of the 1930s." The report cites Argentina, which grew 2%

per year in the 1950s, yet poverty rose. Honduras grew 2% a year from 1986-9 and saw income poverty double. Even in the wealthy countries of the United Kingdom and the United States, which experienced good average growth from 1975-1995 saw the proportion of its population in poverty increase. This is why economic growth should be focused not at corporate economic growth, but growth in small scale activity.

As three-quarters of the world's poorest people live in rural area, pro-poor growth means raising agricultural production and income. This is achieved by creating an environment for small-scale agriculture, microenterprise and the informal sector, which in turn generates economic activity, employment and the meeting of basic needs.

4. Globalization must be checked and managed with more concern for distribution of wealth. Even though trade and foreign investment is expanding, there is a widening gap between economic winners and losers, with unemployment in industrial countries rising to 1930s levels, and while the ratio of global trade to GDP has been rising over the past decade, it has been falling for 44 developing countries, with more than a billion people.

5. Governments must provide an environment that supports efforts made by the poor on their own behalf, and support pro-poor policies and markets. Governments are responsible for providing basic education and health care,

6. International support is needed to help reduce the poorest countries' debt, to increase their share of aid, and open markets for their exports.

The report concludes by stating that by working to improve the situation of poor countries, especially those in Sub-Saharan Africa, many military conflicts can be avoided. Debt relief would be very beneficial to those countries that are incapable of exporting due to conflict, giving them the ability & increasing their confidence to continue without the yoke of debt hanging around their necks.

## Part I: An Introduction to Money and the Conventional Economy

### A Brief History of Pre-Money Currency

Money has come to play such an important role in our lives, and we are all so subject to its functions that we often forget the definition of what it is and how it works. We can say that money has become "reified", that is to say a human construct that has come to have power over humans, rather than working in the service of people.

Money is generally defined as what is offered or received, and accepted, in exchange for goods and services. Currency is the form that money takes to distinguish it from others. The earliest money took a variety of currency forms, usually as 'commodity money', money that is exchangeable with a particular commodity such as livestock, sea shells, tobacco, salt, and etc., depending upon the commodities produced in the region where the trade takes place. Before the introduction of metal currency, items such as clay tablets, shells, bags of valuables, and semi-precious stones among many other currency types were used, depending on what was locally available.

The widely held view is that money arose to facilitate three way transactions, such as when a barter transaction failed because what one person was offering, the other did not want. Money arose to allow two dealers to engage a third person in the exchange so that they all could be satisfied. Actually, money arose to fulfill a number of functions, mostly related to the convenience of a token representing a commodity or value standard.

Soon, the use of money came under the control of those in power, and began to take on a value independent of any one particular commodity, so that a variety of commodities could be used to back the value of the currency. Certainly, those in power saw the opportunity of even greater profit through issuing their own currencies.

Gold and silver rose to become the new currencies, partly because advances in metallurgy allowed these coins to be diluted with other metals, shaved or otherwise altered to generate additional profits. The use of coins to represent commodities eliminated the problems of spoilage, damage and transport of weighty items or fragile commodities. The oldest known metal coins come from ancient Sumeria, where in 3000 BCE bronze coins were issued with one side depicting a bushel of wheat, and the other showing the goddess of fertility. This coin, called the 'shekel' or "bushel of wheat" represented shares in food stocks in storage<sup>2</sup>. Previously, tokens were minted from clay.

These stores of food were also the basis of the Egyptian monetary system. Each farmer who contributed to the stockpile would receive a piece of pottery having an inscription of the quantity and date of delivery of his contribution, which he could then use to purchase something else. These receipts, or 'ostraca', have been found by the thousands and were in fact used as currency, and depreciated in value over time. For instance, if someone wanted to redeem an 'ostraca' of ten bags of wheat after six

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<sup>2</sup>Bernard Lietaer. [Beyond Greed and Scarcity](http://www.transaction.net/money/book/index.html). Unpublished Manuscript.  
<http://www.transaction.net/money/book/index.html>

months, he would only receive nine bags. This charge reflected the costs of guarding the depot and quantities lost to decay, pests and rodents<sup>3</sup>.

In order to reduce the risk of theft, and alteration, vaults were built to safeguard valuables. Others became able to deposit their valuables there for safekeeping. To avoid having to transport large amounts of gold, the custom of writing 'cheques' began to allow others to receive gold from the holder's account. More and more people began to accept and use these notes as a means of payment rather than carry around a lot of weight.

### **Creation of Money in the Conventional Economy**

The increasingly common use of 'cheque-notes' allowed for the making of loans from the reserves held in the vault. Soon, more was lent out than was held in reserve, beginning the creation of fiat money, money issued with only partial backing. Eventually, it was found that as much as ten times the value of gold in the vault could be circulated as notes. The bank only needed enough gold in reserve to redeem the few notes that were presented for redemption into gold. This practice became known as Fractional Reserve Banking, and is the method of issuing money that is at the foundation of the present global monetary system.

With the rise of monarchies and centralized government, along with problems caused by over-issuance and speculation, governments stepped in to regulate the issuing of money, creating the first central banks and issuing money either by printing it, selling government bonds to commercial banks and the public, by borrowing it from the bank at interest. Thus, in order to ensure an expanding money supply, money is issued as interest-bearing debt. As there is not enough money in circulation to pay off all outstanding debts at once, the money supply must increase in order to allow businesses to stay above water. If the money supply does not expand, businesses go bankrupt and the economy corrects itself by going into recession. Or if the money supply expands too quickly, such as by printing money and issuing it into the economy, inflation will increase and the value of each unit decreases.

In 1944, shortly before the end of World War II, the major Western powers considered monetary stability as a absolute condition for the reconstruction of their war-ravaged economies. At the Bretton Woods meeting, out of which the modern global monetary system was born, it was agreed to use a "gold standard" by which all the world's currencies would be measured against the value of one ounce of gold in US Dollars. The IMF and World Bank were created to assist in the management of this US-led global system.<sup>4</sup>

The destabilizing effects of currency speculation and the persistent US balance-of-payments deficit were seen as the immediate causes of the system's demise in 1973. Because the US dollar was the currency against which the world's gold reserves were measured, the United States was reluctant to devalue it despite persistent government deficits. As these deficits persisted, reducing the value of the US Dollar, the stock of US

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<sup>3</sup>Bernard Lietaer. Ibid.

<sup>4</sup>See internet <http://www.syn-rj.fr/RAB/Relinter/AnnMnd/BretWood.htm> and <http://ps.ucdavis.edu/classes/pol129/SWE/bw2.htm>.

dollars held abroad ballooned relative to the amount held in reserve to back the currency. Some countries viewed the United States as abusing its privilege to issue reserve currency and felt they were being forced to finance persistent US deficits. In 1971, President Nixon suspended convertibility of the Dollar in gold and introduced a system of floating exchange rates two years later.<sup>5</sup>

Today, only a small part of the money in circulation takes the form of coins and banknotes. In France coins and banknotes represent 5% of the total money mass in the country. In developing countries this proportion is much higher, estimated to be as high as 30% in the West African Monetary Union<sup>6</sup>. The rest of the monetary mass takes the form of bank accounts and other methods of storing value, such as bonds, stock shares and real estate. Only a small part of the money in circulation, therefore, is backed by gold or any other valuable commodity. A shift from the use of gold reserves (which do not generate interests) to foreign exchange reserves (which do generate interests) has contributed to the fact that the value of money today depends more than ever on the confidence the public has in it. This confidence, as history has shown, can decline very rapidly, and it can soar very high, depending on the general mood of people at a particular time, rather than upon other more stable factors relating to reality such as stocks of food, energy resources, etc.<sup>7</sup>

## The Functions of Money

The functions of money have expanded over time. The most essential functions of any kind of money are:

1. medium of exchange: money facilitates multi-party exchange;
2. a standard of value: in order to compare the value of goods and services, we express money in the form of Dollars, Pounds, Marks, Yen, etc. Historically, money represented (and often given the name) of the commodity it was created to represent.

Money can also be used to fulfill a number of secondary functions such as:

3. A store of value: this has historically been a minor function, since the facilities for secure storage were rare and no (interest) incentive existed to postpone spending of the money. Savings were invested in the form of cattle, land (improvements) and housing where improvement and development was considered profit. The storage function became more important with the development of the modern banking system during the past two centuries, to the point now where money earns interest by sitting.
4. A Standard of Deferred Payment: Because money can be stored, it is convenient for credit operations, the building of capital, and for investment purposes.

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<sup>5</sup>Robert Carroll. Fool's Gold.

<http://www.transaction.net/money/community/index.html>

<sup>6</sup>Peter Moers. Community Currency Systems: A Cooperative Option for the Developing World? <http://ccdev.lets.net/moers.html>

<sup>7</sup>See the Global Resource Bank argument at <http://www.globalresourcebank.net>

5. A tool for speculative profit: today more than 95% of all currency transactions are motivated by speculation; less than 5% are for trades of goods and services<sup>8</sup>.
6. A Tool of Empire: Money is used by powerful countries to undermine the currency of weaker countries to force dependence upon the stronger currency. The Russian Ruble during the communist era, and the US dollar are examples of this<sup>9</sup>.

The secondary functions are often in conflict with the essential ones. For example, speculation leads to unstable and unpredictable exchange rates, which undermines the currencies ability to be a stable standard of value in international transactions.<sup>10</sup> Using currency as a store of value, to generate interest or for expected profits at a later time means that others cannot use it as a medium of exchange, which works against the interests of the economy.

Although it is important to understand that only the first two functions are essential in order to be defined as money, any secondary functions that interfere with the essential ones have to be avoided if the monetary system is to be stable over time.

### **The Problem with Money in the Conventional Economy**

Almost all of the conventional money issued by national central banks is issued 'fiat', which is to say that a small fraction of it is backed by gold and by foreign exchange reserves. The rest is subject to valuation by other means, such as the productive capacity and available natural resources of the country, the strength of its military, and the opinion of participants in the stock exchanges and international money markets. Central banks control the internal stability of the currency, such as inflation, and the external stability, such as the exchange rate with other currencies, by managing the supply of money.

A variety of methods are at the disposal of central banks to manage the stability of the system, by buying or selling their own currency, setting prime lending rates, fixing interest rates, and setting reserve requirements for the private or chartered banks.<sup>11</sup> As more and more fiat funds are injected into the global market, and moved in and out of domestic economies at high speed, central banks are increasingly unable to affect the value of their currency. They are thus dependent upon the opinion of market players, as well as the confidence in other currencies in the region, for their stability.

The practice of Fractional Reserve Banking, arguably without sufficient reserves in a global monetary system that has recently adopted new technologies that allow for rapid transfers of large volumes of capital, have led recently to serious financial instability in Asia, Russia and in the developing countries. As investment funds poured into these countries, the banks were free to issue many times that volume in money, and as soon

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<sup>8</sup>Bernard Lietaer: Community Currencies: a New Tool for the 21st Century.  
<http://www.transaction.net/money/cc/ccol.html>

<sup>9</sup>Bernard Lietaer. Ibid.

<sup>10</sup>Joel Kurtzman. The Death of Money: How the Electronic Economy Has Destabilized the World's Markets and Created Financial Chaos. New York: Simon & Schuster. 1993.

<sup>11</sup>See Transaction.net: <http://www.transaction.net/money/glossary.html>



as the money pulled out, the government could not recall its currency in time, leading to a devaluation of the currency. This is the same process that is now happening in South Korea, Thailand, Malaysia and other countries in Asia. These crises now seem to be affecting the value of the US dollar, In case these confidence crises would spread over to one of these hard currencies, one can only guess how deep the resulting world wide economic depression would be.

Currency speculation and derivatives trading is taking an increasingly important and dangerous role in determining the value of a national currency. In 1995, the average daily volume of currency that was exchanged globally was 1.3 trillion US\$<sup>12</sup>. This corresponds to 30 times the daily gross domestic product (GDP) of all of the developed countries (OECD) together. The annual GDP of the United States is turned over in the market every three days. Only 2 or 3 percent of that volume has to do with real trade or investment; the remainder is speculation (on stock markets, currency markets, hedge funds, etc.). Twenty years ago, the proportion of speculation in total trade volume was only a few percent.<sup>13</sup> The implication of this development is that monetary stability depends more and more on speculative markets than on what is actually being traded; the interventions of governments or central banks in central markets can give signals at the best, but the funds they have available for interventions are only a fraction of the total trading volume. Overreactions in the financial markets will therefore have an increasingly destabilizing effect on the real economy, unless some forms of capital controls are imposed, as has successfully been done in Taiwan in Malaysia.<sup>14</sup> Part of the problem is using money to fulfill a number of different, and often contradictory functions.

In addition to the conflicts between the primary and secondary functions of money as a medium of exchange and a standard of value, there are four main reasons<sup>15</sup> why conventional money is unable to fully meet human needs coupled with its ability to destroy environments:

1. Conventional money has unlimited mobility. It can go anywhere, and it goes to where it can earn the greatest return of profit. This interferes with the ability of a currency within a specific area to function with enough money in circulation. As stated previously, if the currency of an area does not have enough in reserves to offset the fluctuations in liquidity, then the currency may devalue, causing a recession.

With the high-speed transaction systems that are now being used, large amounts of money move from place to place. Whereas in the 1930s, shareholders and account holders themselves stampeded from place to place to try to get their money out of the bank or stock market, today's stampede is electronic, with hundreds or thousands of

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<sup>12</sup>Sarah van Gelder: [An interview with Bernard Lietaer.](http://www.transaction.net/press/interviews/lietaer0497.html) YES! A Journal of Positive Futures. April 1997. <http://www.transaction.net/press/interviews/lietaer0497.html>.

<sup>13</sup>Sarah van Gelder: Ibid.

<sup>14</sup>Russell Mokhiber & Robert Weissman. [Ending the Reign of Wall Street.](http://www.essential.org/monitor) Focus on the Corporation. <http://www.essential.org/monitor>

<sup>15</sup>Michael Linton & Angus Soutar. [Money and the Sustainable Economy.](http://gmlets.u-net.com/explore/sustain.html) 1994. Internet: [Http://gmlets.u-net.com/explore/sustain.html](http://gmlets.u-net.com/explore/sustain.html), <http://ccdev.lets.net/materials.html>

investors money running from place to place seeking a better return, or seeking to get out of a bad economic situation.

2. Conventional money is scarce. The volume of money is limited by factors that are out of the control of a specific local area. The scarcity of money prevents inflation, and motivates people to work harder to earn it. In developing countries, money is often more scarce than it needs to be. The supply of money in circulation does not reflect the community's need for it as a medium of exchange, but the national economy's use of it as a store of value, upholding the currency's standard of value.

3. Conventional money is centrally issued. Referring to the previous description of Fractional Reserve Banking, at any given moment in time, the total amount of debt in a conventional money system always exceeds the total amount of money available in the system. The money needed to pay the interest over these loans can only come from some other similar circuits, i.e. money issued by some other borrower. If that happens the second borrower will not be able to earn back enough money to pay his debt. In order to prevent an economic stagnation, the money supply must be continuously expanded: there is need of a perpetual borrower that can never go bankrupt despite the fact that he never pays his debt. Since the 1950s, governments have assumed this role.

In order to stay above this debt, economic growth must exceed the growth of debt. However, in reality the global economy is not catching up with the exponential growth of interest bearing debt. Statistical information confirms this: worldwide debt has been growing by 2% per year faster than the world economy as a whole since 1950, and the total debt in the world is now equal to the value put on almost three years of all economic activity, compared to one year in the 1950's.<sup>16</sup> Add to this the enormous public debt of many governments, and increasing speculative instability and we may be looking at a recipe for disaster.

4. Interest is charged on it. Conventional money is issued as debt, often from the central bank who borrow it from chartered banks. Thus people must compete for the limited amount of conventional money, and if they have debts to pay, they must pay back more than they borrowed.

Essentially, there is a problem with conventional money being used both as a store of value and a measure of exchange. Its relative scarcity gives it a higher value, but does not sufficiently meet the demand for a measure of exchange.

### **The Misallocation of Money in the Conventional Economy**

The origin of the mal-distribution of money and the persistence of dual economies (formal and informal, high-income and low-income) at all levels (nationally as well as internationally), arises from the undemocratic and unsound method of issuance. Rather than seeking social harmony and averaging by reducing the gap between the rich and the poor, it is designed to reinforce a system of social stratification which alienates people from each other and from the environment in which they live.

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<sup>16</sup>Raff Carmen. LETS: A Contemporary Model of Globalization Counterpractice? Manchester University. 1997. <http://stones.co.za/sane/article6.htm>.

In addition to the previously described misallocation of economic resources, the results of which lead directly to a theory of parallel currencies and reform of the monetary system, money is being mis-allocated in the mobilization of human and environmental resources.

### **The Misallocation of Human Resources**

Neoclassical economists argue that economic growth automatically reduces the rate of unemployment, because jobs are created to meet the demands of a growing economy. However it is becoming clear that this assertion does not ring true. As industries seek to increase productivity and profits, workers are replaced with labour-saving machinery, and the rate of economic growth necessary to have an impact on unemployment rates would quite likely be environmentally unsustainable<sup>17</sup>.

In the conventional economy, money is loaned if the person applying for the loan is considered credit-worthy, that is to say, that the lender is reasonably certain to recover the loan plus profit. Loans are generally made with property as collateral to guarantee at least partial recovery in the case of a default in loan repayments.

Those who are unable to borrow must work for those who are able to borrow in order to earn the money they need, to purchase the things they need that they cannot make themselves. This puts the working person in competition with others for limited amounts of money and for the collateral needed to be given the opportunity to borrow.

While this is the same the world over, the gap is clearer in the developing countries. The commercial banks ration the scarce loanable funds to very credit-worthy medium and large-scale enterprises in the modern commerce and manufacturing sector.<sup>18</sup> Often these enterprises are jointly, or entirely foreign loaned, and more often than not lend heaviest to resource-extraction industries.

Therefore, in these countries where typically more than 80% of the population depends on small businesses for their income (mostly informal sector and farming), the term "dual economy" is often used to indicate the relative separation between the formal and the informal sector of the economy, primarily due to the issue of lending. Under these circumstances, it seems certain that very little of the money created through bank loans to the medium and large-scale businesses in the formal sector will trickle down to the informal sector, which is left to struggle with a chronic shortage of cash.

If loans from a commercial bank are unavailable, there are middlemen and "loan sharks" to fill the market niche, putting even greater competitive pressure on the borrower to do whatever it takes to repay the loan.

The requirements of a conventional economy, in which money is issued centrally as debt, has created a game of winners and losers (described in behavioural economics as "motivation"), for whom the government's role is to step in and help where the economy leaves off, assuming that the government is able and/or willing to do that.

The old dream of technological and productivity advances leading to increased leisure time and wealth is being rudely interrupted by the marketplace's tenet that income

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<sup>17</sup>Robert J.P. Gale. The Environment-Economy Guide: Key Concepts, Theories and Principles. Toronto: Ecological Economics, Inc. May, 1996.

<sup>18</sup>Michael P. Todaro: Economic Development in the Third World. Third edition. New York: Longman. 1985. p. 503.

is derived from paid employment and not idleness. There is increasing room for a new economy to fill this niche.

### **The Misallocation of Environmental Resources**

Conventional economic assertions, statements about the role of natural resources ('Land') in the productive process, rest on the premise that the environment is a commodity, measurable and exchangeable with other commodities in the productive process. The environment is not seen as a life-support system, or as having value in itself. By weighing economic values (production) against environmental values (conservation), conventional neoclassical economists invariably come out on the side of economic values.

In their view, a properly functioning economy is one in which consumer's wants are met, and which the economy is always growing, because growth means progress and development. The environment, along with labour and capital is just one factor in the process<sup>19</sup>.

With the pressure on people to do whatever they can to make ends meet and on borrowers to repay loans, great pressure is being placed upon the environment, simply because of the method used to issue and distribute money in the conventional economy.

Because money can begin to generate interest as soon as it is earned, there is little incentive to protect the environment. A tree cut today is worth more money than five years from now, for the interest that can be earned compared to the tree growth that can be achieved in that time.

In recent years, a new discipline within Economics has argued for a proper accounting of natural resources, the environment, in understanding and evaluating the productive process. "Ecological Economics", as this discipline is called, holds a holistic view of the environment economy system, seeing the economic system as a subset of the natural system of the earth, with a greater concern for natural resources, many of which are either limited or have long regeneration cycles, and with human resources and values, such as health, dignity, and moral/ethical obligations, including those towards future generations<sup>20</sup>.

If part of the goal is to reduce environmental destruction, we must go to the root of the problem of why people are engaging in these activities. When we see the reasons, it is easy to conclude that the source and method of issuing money is at the root of the problem.

### **Usury: Christian and Islamic Views**

Both the Christian and Islamic religions have been opposed since their earliest beginnings to the charging of usury, which can be loosely defined as a rate of interest above what was considered acceptable, or the actual practice of charging interest. Whereas in the Christian church the payment of interest is acceptable but the excessive

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<sup>19</sup>Robert J.P. Gale. The Environment-Economy Guide: Key Concepts, Theories and Principles. Toronto: Ecological Economics, Inc. May, 1996.

<sup>20</sup>Robert J.P. Gale. Ibid.

charging is not, Islam goes further by equating usury with interest and condemning it outright. If the lending has resulted in profit for the borrower, a portion of the profit must be shared with the lender.

In his encyclical of November 1, 1745, "On Usury and Other Dishonest Profit", Pope Benedict XIV countered the rise of usurious interest. Borrowers, being unable to pay the rate of interest on their loans, turned to the Church for assistance and asked to have the Church to invalidate their contracts. Appalled by the scale of the outstanding interest owed on these debts, the Vatican laid down the theological position, and the canon law on the matter of usury. The Vatican asked its Cardinals, some of whom held degrees in law to establish a fixed teaching on usury, "since the opinions recently spread abroad seemed to contradict the Church's doctrine."<sup>21</sup>

The Vatican's lawyers returned with the following statement:

"I. The nature of the sin called usury has its proper place and origin in a loan contract. This financial contract between consenting parties demands, by its very nature, that one return to another only as much as he has received. The sin rests on the fact that sometimes the creditor desires more than he has given. Therefore he contends some gain is owed him beyond that which he loaned, but any gain which exceeds the amount he gave is illicit and usurious...."

The Vatican strictly opposed usury, and in fact suggest that they are opposed to the charging of interest at all. However, they did not rule out parallel agreements that may involve additional benefit to the creditor, or to profit from industrious activities.

In the end, the Vatican conceded that as long as the amount was "fair" to both parties, then interest would be acceptable. "There are many different contracts of this kind. In these contracts, if equality is not maintained, whatever is received over and above what is fair is a real injustice."

The Vatican argued that to charge usurious interest not only went against the Catholic Church, but also against common sense and natural reason. "Everyone knows that man is obliged in many instances to help his fellows with a simple, plain loan. Christ Himself teaches this: 'Do not refuse to lend to him who asks you'."

The modern Church remains opposed to usurious interest. Pope John Paul II, in his weekly address on September 10, 1997<sup>22</sup>, denounced usury and applauded an Italian organization devoted to abolishing the practice. The Pope spoke out against "unscrupulous usurers" engaged in the "pitiless exploitation" of families who are in need after suffering from downturns in the economy.

Islamic religion prohibits the charging or paying of interest, "riba", regardless of the purpose for which the loan was made and regardless of the rate of interest charged by

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<sup>21</sup>Pope Benedict XIV. On Usury and Other Dishonest Profit. November 1, 1745. Trinity Communications. 1994. Available at two locations:

<http://listserv.american.edu/catholic/church/papal/benedict.xiv/b14vixpe.txt> or  
<http://www.csn.net/advent/docs/be14vp.htm>

<sup>22</sup>Catholic World News. September 10, 1997.

<http://www.catholic.org/media/news/vnbarchive/vnb091097.html>

non-muslims<sup>23</sup>. Recently, efforts are being made to bring the principles of Islam back into banking, where banks have strayed from Islam and are charging interest on their loans to other Muslim people. Whereas there have been attempts, like in Christianity, to distinguish between acceptable interest and usurious *riba*, the muslim academic community is united in its reading of the Qur'an as being in complete opposition to both ways of taking advantage of others through loans.

The prohibition of interest and *riba*, which are used interchangeably in Islam, is mentioned in four different revelations in the Qur'an. The first revelation emphasizes that interest deprives wealth of God's blessings. The second revelation condemns it, placing interest in juxtaposition with wrongful appropriation of property belonging to others. The third revelation enjoins Muslims to stay clear of interest for the sake of their own welfare. The fourth revelation establishes a clear distinction between interest and trade, urging Muslims to take only the principal sum and to forgo even this sum if the borrower is unable to repay. It is further declared in the Qur'an that those who disregard the prohibition of interest are at war with God and His Prophet. The prohibition of interest is also cited in no uncertain terms in the Hadith (scriptures). The Prophet condemned not only those who take interest but also those who give interest and those who record or witness the transaction, saying that they are all alike in guilt.

Some scholars have put forward economic reasons to explain why interest is banned in Islam. It has been argued, for instance, that interest, being a pre-determined cost of production, tends to prevent full employment. Others contend that international monetary crises are largely due to the institution of interest, and that trade cycles are in no small measure attributable to the phenomenon of interest. None of these studies, however, has really succeeded in establishing a causal link between interest, on the one hand, and employment and trade cycles, on the other. Still others have argued that interest is not very effective as a monetary policy instrument even in capitalist economies and have questioned the efficacy of the rate of interest as a determinant of saving and investment.

A common thread running through these opinions is the exploitative character of the institution of interest, although some have pointed out that profit (which is lawful in Islam) can also be exploitative (which is not lawful). One must distinguish between profit and profiteering, as it is the latter that is prohibited in Islam.

Some writings have alluded to the 'unearned income' aspect of interest payments as a possible explanation for the Islamic doctrine against the taking of interest. The objection that rent on property is considered lawful is then answered by rejecting the analogy between rent on property and interest on loans, since the benefit to the tenant is certain, while the productivity of the borrowed capital is uncertain. Besides, property rented out is subject to physical wear and tear, while money lent out is not. The question of erosion in the value of money and hence the need for indexation, such as a form of negative interest, or timed-depreciation such as that proposed by the German economist Silvio Gesell could be interesting.

The Islamic ban on interest does not mean that capital is costless, or does not earn profit in an Islamic system. Islam recognizes capital as a factor of production and while it does not allow the lender of capital to make a contractual claim on future profits

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<sup>23</sup>Mohammed Ariff. Islamic Banking. University of Malaya.  
<http://www.uio.no/~stvhoy11/islbank.html>

of the borrower in terms of interest, there may be other ways, such as profit-sharing. Profit-sharing can be a viable alternative which is lawful in Islam. What makes profit sharing permissible in Islam, is that with interest it is the rate of return that is predetermined, whereas with profit-sharing, it is the ratio that is predetermined, with the lender linked to the borrower in case of loss, similar to that supported by the Vatican.

It has been argued that profit-sharing can help allocate resources efficiently, as the profit-sharing ratio can be influenced by market forces so that capital will flow into those sectors which offer the highest profit sharing ratio to the investor, other things being equal.

While some Islamic economists are opposed even to profit-sharing as just a front for profiteering, mainstream Islamic thinking on this subject is looking for ways to replace interest with something else.

Politically, the Islamic Party of Great Britain supports the introduction of LETS to the Islamic community as a way to foster economic activity in accordance with Islamic Law<sup>24</sup>. In a statement on LETS issued by the party, they state<sup>25</sup>:

"In our attempts to engineer a practical return to trading without usury, in line with Islam's prohibition of interest (Riba), members of the Islamic Party of Britain have faced the toughest opposition from 'Muslim' economists and 'Islamic' bankers, in areas of the Muslim world desperately in need of a halal (just) monetary system, through which, it was hoped, that the Sharia (God's word) could be seen to be working in the interests of ordinary people.

At the moment, we see the sanctioning of Islamic punishments devoid of Islamic Justice. The laws concerning theft, for example, must first be applied to those in the society who cause the conditions in which people find the need to steal, or seek other illicit escapes from the inexorable, unbearable pressures of debt. Because, as Ali, the cousin of Allah's messenger, pointed out: "We withstood the weight of the Iron, the Stone and the Lash, but we could not endure the weight of debt." Understanding the destructive nature of poverty he also stated: "If poverty were a man I would kill him". If, therefore, Islamic Justice was the basis of the punishments meted out in those countries which outwardly profess to be guided by the Glorious Shariah -- there would be few dextrous, let alone ambidextrous bankers around."

There are many good non-Islamic books and leaflets on the subject of interest and its consequences. And many groups in the world already create money for themselves when they involve themselves in interest-free, L.E.T.S (Local Exchange Trading Systems). These demonstrate clearly that money can be a useful servant - the role specified for it by Allah.

In the second Surah of the Qur'an, entitled Al-Baqarah, Verse 282, significantly the longest in the entire scripture, He spells out the warning to all those who claim to be believers. "O you who believe! When you deal with each other, in transactions involving future obligations in a fixed period of time,

<sup>24</sup>Islamic Party of Britain. <http://www.muslims.net/islamparty/islamparty.htm>

<sup>25</sup>Statement posted to the newsgroup: uk.religion.islam, Subject: Islamic View on Local Exchange Trading - letsarab.jpg (0/1) on Sun, 10 Nov 1996 at 21:59:43 GMT by the Islamic Party of Britain. <http://www.muslims.net/islamparty/islamparty.htm>

reduce them to writing. Let a scribe write down faithfully as between the parties: Let not the scribe refuse to write: as Allah has taught him. So let him write. Let him who incurs the liability dictate, but let him fear Allah his Lord and not diminish anything of what he owes...and get two witnesses.... The witnesses should not refuse when they are called on for evidence. Disdain not to reduce to writing (your contractual obligations) for a future period, whether it be small or large: it is more just in the sight of Allah, more suitable as evidence and more convenient to prevent doubts amongst yourselves..."

The compatibility of Local Exchange Trading Systems and Verse 282 of Surah Al-Baqarah is quite remarkable. For example, Allah informs us earlier, in verses 275-279 of the same chapter that, He permits trade but condemns outright -- usury/interest/riba -- in any shape or form. "Those who devour usury will not stand except as stands one whom Satan by his touch has driven to madness. That is because they say: "Trade is like usury", But Allah has permitted trade and forbidden usury...Allah will deprive Usury of ALL blessing.... O you who believe! Fear Allah, and give up what remains of your demand or usury if you are indeed believers. If you do not (desist), take notice of War from Allah and His Messenger."



## **Part II: Introduction to Parallel Currencies**

Parallel currencies are not a new concept at all, and stem from the earliest days of human civilization. Often, a marketplace issued its own currency to manage exchange between different currencies. In ancient Sparta, a second currency was issued to build the funds needed to wage war without it affecting the mainstream economy by causing inflation.

In this century, there have been two major bursts of parallel, local and community currency activity, in the 1930s following the Crash of 1929 and resulting Great Depression, and in the 1980s and 90s. Interestingly, whereas the systems that emerged in the 1930s were a direct result of the harsh economic conditions at the time, the systems that emerged in North America, Europe and the British Commonwealth countries in the 1980s and 90s are more the result in an ideological shift towards a sustainable, steady-state ecological paradigm coupled with the introduction of new technology such as the personal computer and software such as database programs, in addition to new methods of communication such as the telephone, the fax, and the internet.

In this section, we present the theory of parallel currencies, that is to say, currencies that are designed or intended to circulate in parallel, or complementarily, with the national conventional currency. This is separate from "alternative" currency systems are generally defined as those which are designed or intended to replace or function separate from the national conventional currency.

### **The General Theory of Parallel Currencies**

The theoretical foundation and practical design of parallel and alternative currencies is based upon shortcomings in conventional money: if conventional money corrected these shortcomings, parallel or alternative forms of currency would be unnecessary. Some community currency proponents argue that decentralized local currencies have a permanent place alongside currencies which can move from locality to locality. Thus, from the inability of conventional money to satisfy people's needs come new developments to fill the gap.

During the 20th century, we have struggled with several large and persistent problems: unemployment, environmental degradation, military conflict, hunger and poverty. Neither governments, international bodies, nor the market have been able to produce solutions to solve these problems. These problems, some argue, can be traced to money, and particularly to its design as a conventional national currency.

Proponents of parallel currencies assume that most people want to do good things, to do what they feel is right. Unfortunately, however, these human activities, efforts that are of real value to the community often do not happen because those who do have the desire and the will do not have the money with which to carry them out. And conversely, those who do not have the money are willing to do things that are harmful to the environment or to other humans or even harmful to themselves simply to earn the money with which to buy the things they want or feel that they need.

In addition to existing economic measures to put the monetary resources where people hearts and minds are, such as with microcredit, local/community economic

development, funded programs and the like, we argue that parallel currencies also have an important role to play in giving people the resources to do what they feel is right, and what is in the interests of society and ecology.

In response to the problems with conventional money, these currencies generally respond with four main opposing points in addition to the benefits discussed at the end of this section<sup>26</sup>:

1. Local currencies are limited to the local area, and community currencies are limited to the community of traders in which they are issued. Local currency systems seek to limit the mobility of the currency so that it stays local to fulfill its function as a unit of exchange.
2. Local currencies are issued in quantities sufficient to meet the needs of the users of the locality. Although there are different methods for issuing local and/or community currency, the idea is to have enough in circulation and supply as needed, with no more and no less. Otherwise, the up-and-down cycles of the conventional economy are merely replicated.
3. They are issued by a local authority, or by the participants in the system. This decentralizes the operation of the system to the local level, giving the participants of the system a say in how the system operates, giving citizens democratic control over their economy.
4. No interest is charged on negative balances, nor paid on positive balances. However, a number of economists have proposed that interest be charged on positive balances, or on the storage of money to encourage its circulation.

Local and community currency theorists see money, therefore, as an "information system we use to deploy human effort"<sup>27</sup> according to Michael Linton the designer of the Local Exchange Trading System (LETS). In this view, money is primarily as a measure of exchange, and secondarily as a store of value representing the social wealth in the community, a value which only has value in circulation and not in hoarding.

### **Regional, Local and Community Currencies**

Parallel and alternative currency systems are almost always considered to be internal currencies--their currencies are limited in some way, whether by geographic region or social group. Depending upon the region or group served, the type of system used is designed to fulfill a particular function or set of functions.

Regional currencies are generally issued and managed by state, provincial or regional governments in the area, such as the example of the currency bonds issued by the Argentine province of Salta, and the recent "merchant coupon" local currency issued in Japan.

Local currencies are generally issued by local governments or organizations to serve the area under their jurisdiction. Mutual credit parallel currency systems like the Local Exchange Trading System (LETS) are considered to be both local and community

<sup>26</sup>Michael Linton and Angus Soutar. Community Money and the Sustainable Economy. <http://gmlets.u-net.com/explore/sustain.html>, <http://ccdev.lets.net/sustecon.html>

<sup>27</sup>Thomas Greco. New Money for Healthy Communities. Tucson, Arizona. 1994. <http://www.ic.org/market/money/>

currencies, serving either or both social groups and geographic areas. The HOURS system is an example of a common type of local currency which circulates between members and non-members of the system within a specific geographic area.

Community currencies are generally issued by local organizations to serve a specific social group, rather than all people in a locality, with the LETS system as the primary example. As we will see, they can also expand to serve a group of groups at the regional level. And taking this further, a regional currency system serving everyone within a regional area can be entertained, although it has not yet been tried.

### **Fiat, Backed and Mutual Credit Currencies**

In addition to dividing systems by geographic area or social group, we can theoretically divide them into three types: fiat, backed and mutual credit currencies.

Fiat currencies, including partially-backed currencies (conventional money) are those that are issued without backing by commodities or other resources, and by a central authority, not by their users. The value of fiat parallel currencies (like the HOURS) is dependent upon trust in the value of the currency by the users, by a willingness to accept the fiat parallel currency.

Backed currencies are those which are fully backed by either commodity goods, or by a reserve fund in conventional money, and can be separated into "value-backed" and "commodity-backed" currencies. Value-backed currencies are those which can be spent as a discount on purchases, such as 'air miles' or bonus credits. Commodity-backed currencies represent the value of a particular commodity or set of commodities<sup>28</sup>. Both types can be used as money. Backed currencies can be limited to either the geographic area or the social group within which they circulate.

Mutual Credit currencies are those which are issued by their members, without any creation of money by the system's administration. There may be nothing physical backing the currency, however the mutuality of the system provides a strong reason for receiving or earning as many units of the currency as one has spent.

The Local Exchange Trading System, or LETS, is the most common form of mutual credit system, and in fact, the most common form of parallel currency in use today, with over 2,000 systems worldwide. As the currency is issued by members of the system in the course of trading, there is generally no non-member use of the system, circulation occurs within a defined social group of members. However, a recent change in the transaction method to allow for "cheque-notes" has created a new branch in the mutual credit area: The Tianguis Tlaloc system in Mexico City, which allows the currency to circulate between both members and non-members who are willing to receive the currency.

In this report we will only be presenting information about fiat and mutual credit local currency systems, as there are no comparable examples of a backed local currency system. In Thailand however, the Thailand Community Currency Systems project is testing a currency using an ancient method—issuing a local currency backed by grain or other stocks in a warehouse.

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<sup>28</sup>Bernard Lietaer. Transaction Net Glossary of Terms.  
<http://www.transaction.net/money/glossary.html>

## The Economic Theory of Parallel Currency

In this section, we will look at the monetary theory of Silvio Gesell and Irving Fisher. Silvio Gesell's design for a depreciating currency is one of the greatest legacies of earlier local currency theorists<sup>29</sup>. It develops out of an understanding of two of the most basic conventional economic formulas.

The first formula is:

$$P = f(D/S)$$

meaning the Price of a good or service is a function of the relation between the Demand and the Supply. There are other factors that deserve consideration.

When using money to purchase goods, the formula changes to account for a marketplace into:

$$P = M/G$$

meaning the price changes with the relation between amount of money in circulation to the supply of goods and labor. With this formula, it would seem logical that one would only need to increase the amount of money in circulation to make prices more affordable. However, when this was tried, the effect of inflation was quickly discovered.

So the concept of turnover was introduced into the formula, and Silvio Gesell was one of the first economists to put this formula to use. Gesell used the formula:

$$P = M \times V/G$$

to state that the Price of a good is determined by the amount of Money in circulation, times the Velocity at which the money is circulating, divided by the supply of Goods or Services in circulation.

Irving Fisher, using a slightly different formula, considered T (transactions) as a static number, intended to present information about what has happened in the past, whereas Gesell's formula shows how the economic forces really work.

Let us now look at Irving Fisher's "Quantity Theory of Money"<sup>30</sup>. Considering the formula:

$$MV = PT$$

M represents the volume of money in the system, V the transaction velocity, P the average price of all transactions and T the number of transactions that take place during a

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<sup>29</sup>Hans Eisenkolb. <http://sunshinecable.com/silviog>

<sup>30</sup>Sidonie Seron. Local Exchange Trading Systems. Master's Dissertation, Faculte de Langues et Communication, Departement des Langues Etrangeres Appliquees, Universite de Bourgogne - Dijon. 1995.

<http://gmlets-u-net.com/resources/sidonie/home.html>, referring to:  
Hardwick, Khan and Langmead. An Introduction to Modern Economics. 3rd Edition. London: Longman. 1991

specific time period. Both MV and PT measure the total value of all transactions in different ways and are always equal. We can say that:

1. In the conventional economy, the money supply should be regulated to account for the velocity of the currency. If currency is not moving, currency needs to be created. If it is moving, it does not need to be created. If the money supply is not directly related to the velocity of the currency, either a mechanism for moving that money (negative interest charged to positive balances) or a parallel currency is needed that accurately reflects this relationship between money supply and velocity.
2. In the parallel currency economy, the velocity or "V" is high in relation to the money supply or "volume" because the money comes into existence in the course of trading, and because it does not gain nor cost interest.
3. In the parallel currency economy, the average price of all transactions or "P" remains stable as long as the conventional currency to which the parallel currency is referenced remains stable. Parallel currency can be stabilized by tying its value to other standards such as labour-time or a basket of commodities, or by implementing an exchange rate to control inflation.

Continuing with this basic formula, we can derive another way of looking at the parallel currency:

$$\bar{M}\bar{V} = \bar{P}\bar{T}$$

We can say that M, the money supply or volume of money in the system is dependent upon the number of transactions that take place. This is the complete opposite of how money works in the conventional economy, where the number of transactions that can take place depends upon the money supply. In other words, if the money supply of national currency is scarce, then the number of transactions that can take place is reduced, causing unemployment and economic downturn. Instead of a fixed and scarce money supply, by introducing a parallel currency system we have an entirely new monetary system which measures economic activity as being at the root of the money supply.

So Gesell's idea, later adopted by Fisher, was to put a tax on idle money to increase circulation, thus reducing prices while increasing the consumption of goods and services.

Meanwhile, John Maynard Keynes proposed that governments spend themselves into debt (deficit financing) and then pay off the debt when the economy turns around. His proposal was adopted by troubled governments at the time. The trouble was, the debts created by deficit spending were never paid off.

Gesell initially proposed a tax on idle money of 5.2% a year in weekly stamps of 1/1000 of the nominal worth, (later simplifying the tax to 1% every two months) to speed money up so that goods could be consumed at their rate of replacement and services used to their fully employable extent. The Woergl and Wara systems, two successful pilot projects implemented in Germany during the

depression taxed money to the amount of 12% a year. Irving Fisher, on the other hand, proposed a 104% tax, charging 2% weekly, which deterred people from using the system.

### The Economic Theory of Mutual Credit

Mutual Credit is the type of economy used by the Local Exchange Trading System (LETS). LETS is a system of accounts in which the members issue and manage their own personal money in the course of trading. Therefore, the LETS system economy is balanced at zero, with the amount of money on one side of the balance sheet being equal to the amount of money on the other side. When money is transferred from one account to another, the system is balanced accordingly. If there is ever an error made, the problem can easily be traced.

The LETS is managed using a computer database on an IBM machine, but there is software available for the Macintosh. In places where such technology is unavailable, it is possible to run a system by hand.

With fiat systems, money is issued to the user of the system upon registering trades in the Newsletter. Value-backed currencies are issued when a purchase is made. Commodity-backed currencies are issued when some commodity backing the item is deposited in storage. With LETS, currency is issued in the course of trading.

All accounts in LETS start at zero, and in the course of trading account balances move between positive and negative, negative movement signifies the creation side of money, and positive movement suggests earning money that has already been created.

The following diagram describes how this process works. Four people, A, B, C, and D engage in trades with each other in increasing amounts, so as the transactions progress, some new money is created and issued, in addition to money that was previously issued. In this example, the currency volume will expand by 25 trade dollars during each trade, issuing 100 trade dollars into the system.

	Account	Balance	A	B	C	D	Money Supply	Turnover
A pays B 25 trade dollars.		-25	+25				25	25
B pays C 50 trade dollars.			-50	+50			50	75
C pays D 75 trade dollars.				-75	+75		75	150
D pays A 100 trade dollars.		+100				-100	75	250
		+75	-25	-25	-25		75/0	500

System Balance = 0

The last transaction, from Member D to Member A cancelled out the initial issuing of currency, thus the money supply does not expand.

As the trades started and ended with Member A, Member B's turnover is low because She/He is the next in line. Member A has a positive balance because the sum of successive trades was spent by Member D on the final purchase with Member A, which balances the system at zero.

This example assumes that the each successive purchases increases by 25 trade dollars. In this example, 500 trade dollars of economic activity was created from the 75 trade dollars in circulation, because of the expansion in each successive purchase by 25

trade dollars. This increasing trade generated a higher turnover which in this case is slightly more than 5 times greater than the volume.

Thus it is not money supply that is of concern in the system, rather it is the turnover (Velocity) which more accurately describes the level of economic activity. In this hypothetical system comprising four members, calculating the turnover is easy as it is simply the total amount of currency going in or out of the account. In systems with many members and a large number of transactions, it becomes too complex to be worth calculating the money supply. It is much easier to do with printed currencies.

If each member were to spend the **same amount** with each other on each successive purchase, we can see what happens.

Account Balance	A	B	C	D	Money Supply	Turnover
A pays B 25 trade dollars	-25	+25			25	25
B pays C 25 trade dollars		-25	+25		25	25
C pays D 25 trade dollars			-25	+25	25	25
D pays A 25 trade dollars	+25			-25	0	25
System Total	0	0	0	0	0/0	100

Because the cycle of activity starts and ends with person A, the currency issued by A into the system has returned to cancel itself out. So if currency is not needed, debts get paid off and the system ceases to function.

LETS currency is issued according to **mutual credit**. Each person in the system can issue currency into the system, for which they are responsible for backing and accepting until their negative balance has been returned to zero.

Considering the economic theory of parallel currencies presented above, we can say that LETS is better able to adapt itself to existing economic realities at the local level than the conventional money system.

As LETS participants are alternatively buyers and sellers, producers and consumers (or "prosumers" as Alvin Toffler termed people participating in the Third Wave economy<sup>31</sup>) there are no cash flow problems in the LETS currency because it is created through trading, and not through issuance by a central authority. It is not possible to drive up prices using the LETS Credits to make profits in the national currency. In a no-interest system, where the money supply is theoretically unlimited but practically limited, purchasers are not forced into paying unfair prices and can wait out any fluctuations in the cost of a desired good or service.

As no interest is paid on positive balances, there is no need to create more money for the purposes of saving--all money in LETS comes into existence in the course of trading, as we saw above, and because it is created immediately, there is no possibility of creation of LETS Credits for speculative purposes as well.

Because of the rapid self-correcting mechanism, LETS participants experience an increase in the volume and velocity of currency during downturns in the conventional economy, what Professor James Stodder called a "counter-cyclical" tendency.

<sup>31</sup>Alvin Toffler. The Third Wave. New York: Bantam Books. 1979, 1991.

As we saw with Irving Fisher's formula ( $\bar{M}\bar{V} = \bar{P}\bar{T}$ ), the money supply is dependent upon the number of transactions that take place. This is the complete opposite of how money works in the conventional economy, where the number of transactions that can take place depends upon the money supply. Thus if the money supply of national currency is scarce, then the number of transactions that can take place is reduced. Instead of a fixed and scarce money supply, through LETS we have an entirely new local monetary system which considers economic activity as being at the root of the money supply, and not the other way around. Thus there are no significant upturns or downturns in LETS economic cycles.

In LETS, the only limiting factors preventing transactions are the imagination of people, the willingness and ability to trade, and the environmental factor which guides people away from resource extraction activities and into human needs activities. This is a clear demonstration of the perfect connection between the money supply of LETS and the meeting of human needs.

### **Trade Creation and Trade Substitution**

The trade creation and substitution effects of a parallel currency are well known, providing some strong reasons for participating in such a system. However the effect has not been adequately studied. We will now look at a theoretical example of the process

Trade creation involves a transaction that would not have taken place without the parallel currency. The economic benefits of parallel currency systems (in terms of extra revenues and employment) are expected to derive from this effect. Excess production capacity that is left idle within the present monetary system is employed within the parallel system: restaurants accept local currency during low activity hours, under and un-employed people are hired for gardening services, excess stock is sold at "regular" prices (parallel + conventional currency) in addition to other multiplier effects. These are clear cases of local demand creation: transactions that would not have taken place without the parallel currency.

Trade substitution involves a transaction in the parallel currency that substitutes a transaction formerly made in national currency. A transaction in local currency that substitutes a transaction in national currency has no direct net economic effects in terms of income and employment generation in the national currency. However, since the local currency is created (and not earned at the expense of a hard currency earning activity), national currency has been saved. These savings can be spent on other products and services, which leads thus indirectly to a net higher volume of trade, while encouraging the conventional money to circulate locally when tied to the parallel currency.

The following figures demonstrate the income generating effects of the introduction of a parallel currency. Four persons are participating in this hypothetical parallel currency system: A, B, C and D, and trade the same amount in each transaction, two units of national currency. In the first example, the initial situation is represented: no parallel currency is introduced: the aggregate income is 8 units of national currency (8\$).



### Example One

A pays to B, two units of national currency  
 B pays to C, two units of national currency  
 C pays to D, two units of national currency  
 D pays to A, two units of national currency  
 total= eight units of national currency in circulation

In the second example, A has introduced a parallel currency which is accepted by B, C, and D. None of the transactions in parallel currency are entire substitutions of transactions formerly made in national currency, but make up 50% of each transaction. A completely new parallel economy in local currency is created besides the existing economy in national currency. The new aggregate income of this virtual economy is 12 units: 8 in national currency and 4 in local currency.

### Example Two

A pays to B, one unit of parallel + one unit of national currency  
 B pays to C, one unit of parallel + one unit of national currency  
 C pays to D, one unit of parallel + one unit of national currency  
 D pays to A, one unit of parallel + one unit of national currency  
 sub total= four units of parallel and four units of national currency  
 plus savings= four units of national currency  
 total= 12 units of combined currency in circulation

According to this figure, the income gain would have been much larger (a 33% increase in currency volume) if all 4 participants had been able to spend the national currency that they had saved back into the system. We can assume that trade creation and substitution will occur in order to take up the weakness in the money supply.

The third example represents the situation in which A introduces a parallel currency, accepted by B, C and D. However, in this case all transactions are substitutions of transactions in local currencies. It is supposed that national dollars are spent half locally and half outside the community. The extra purchasing power generated by the fact that each participant can save two units of national currency each, (assuming that they have these two units) will eventually leak away, unless it is tied to future purchases using a combination of the currency as in the second example above..

### Example Three

A pays to B, two units of parallel currency  
 B pays to C, two units of parallel currency  
 C pays to D, two units of parallel currency  
 D pays to A, two units of parallel currency  
 sub total= eight units of parallel currency  
 plus savings= eight units of national currency  
 total= sixteen units of combined currency in circulation

From this example, one can assume that the increase in money in circulation will result in trade creation, or be used for non-local purchases which will result in the

eventual draining away of the national currency unless the parallel currency is spent as a portion of a purchase which will keep the national currency circulating longer. This is the idea behind trade substitution and trade creation. As mentioned before, if there are no additional ways to absorb the increase in currency volume (such as through trade creation and substitution or negative interest), then inflation may be the result.

In parallel currency systems, the general idea is to encourage trade using a portion of the local currency, as this "middle way" is the best way to increase the money supply while at the same time working to keep the national currency circulating locally. In this way, it is expected that the use of parallel currencies in conjunction with the national currency will work to keep inflation in check while expanding the money supply. Although figures one, two and three are hypothetical, the experiences of systems supports this conclusion, however almost no scientific research has been done to look into the trade creation and trade substitution effects of the introduction of local currencies. A study by Professor James Stodder of Reinseller Polytechnic in New York on Corporate Barter Systems suggests a counter-cyclical economic tendency results from the participation of businesses in commercial parallel currency systems<sup>32</sup>. Due to the early phase of development in the introduction of parallel currency systems in developing countries, such studies are nonexistent, although some initial results are intended through the study of the Tianguis Tlaloc system. The method of issuing mutual credit (LETS) community currencies will be looked at in the section on Mutual Credit Systems.

In the developed countries, non-commercial parallel currency systems are primarily used by individuals. Recent studies<sup>33</sup> suggest that the primary motivation for participating is ideological rather than economic. However, as low-income participants are drawn to the system for "trade creation" (employment generation) reasons, these studies also show that trade creation in the form of employment generation is noticeable, and a good reason to participate in the system. On the other hand, it has also been noted that the local currency is often spent on transactions that would not have taken place without the local currency, either as unmet needs or as activities that were formerly within the realm of the gift economy. As will be argued later, the conditions for trade creation, for individual producers and small businesses through the implementation of a parallel currency system are better in developing countries.

## **Social Principles of Parallel Currency Systems**

Most parallel currency systems operate according to some set of principles. With LETS, these principles are embodied in the Account Holder's Agreement. In other countries, such as France and Argentina, there is a set of social principles that guide the behaviour, and operating principles that guide the operation of the organization.

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<sup>32</sup>James Stodder. Corporate Barter and Economic Stabilization. International Journal of Community Currency Research. Vol. 2, 1998. <http://www.bendigo.latrobe.edu.au/arts/ijccr/volume2/>

<sup>33</sup>Even Gran. Green Domination in Norwegian LETS Systems: Catalyst for Growth or Constraint on Development? International Journal of Community Currency Research. volume 2, 1998. <http://www.bendigo.latrobe.edu.au/arts/ijccr/volume2/>

In Argentina, these principles determine the relationship of the members of the system with each other and the larger society. In a recent report<sup>34</sup>, presented to the International Grassroots Groups Initiatives (IGGRI) organization conference, these are the principles of the Argentinian RGT (Red Global Trueque) parallel currency:

"With slight changes produced in our three year old movement, a series of principles guides us in our everyday life behavior. They are written nowhere, they do not fit the sense of the movement of the social system, they are not all accomplished, they are not fulfilled promises among us, they are not easy to keep alive. Instead, we declare them to be our goal, the space where we choose to live.

1. Our fulfillment as human beings need not be conditioned by money.
2. We aim not to promote products or services, but our mutual help in accomplishing a better way of life, through work, solidarity and fair trade.
3. We believe in the possibility of replacing competition, profit and speculation by reciprocity among people.
4. We assume that our actions, products and services may respond to ethical and ecological standards more than to the will of the market, the consumerism and short term profit.
5. The only conditions to be a member of the Global Barter Network are: assisting to weekly group meetings for trade, being trained permanently and being "prosumers" (both producer and consumer) of goods, services and knowledge, as recommended by Quality and Self-help Groups. (Circuitos de Calidad y Autoayuda--CCA).
6. We assume that every member is the only one responsible for her/his actions, goods or services bartered in the Network.
7. We believe that belonging to a group means no relationship of dependence, since individual participation is free and common to every member of the Network.
8. We claim that groups are not necessarily due to be formally organized, in a permanent way, since the network model implies permanent change of roles and functions.
9. We believe it is possible to combine the autonomy of groups (Clubs or Nodes), in the management of internal affairs with all the principles of the Network.
10. We recommend not to support, as members of the Network, moral or materially, any activity that might keep us apart from the main goals of our Network.

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<sup>34</sup>Heloisa Primavera, Carlos De Sanzo and Horacio Covas. Re-Shuffling for a New Social Order: The Experience of the Global Barter Network in Argentina. 1998 Report presented at the conference: "Enhancing people's space in a globalizing economy", hosted by IGGRI in Finland. <http://ccdev.lets.net/latin.html>

11. We believe our best example is our behavior in and out of the Network. We keep confidentiality about our private lives and prudence in the public treatment of those matters that might alter the growth of the Network.
12. We deeply believe in an idea of progress as a consequence of a sustainable welfare of the great majority of people of all societies."

In France, the principles of the Systems D'Echange Locaux (SEL) are quite similar<sup>35</sup>:

"The SELS which adhere to this charter, "the spirit of SELS" agree to experiment with local exchange systems:

- 1.1 According to their own human, technical and organisational means within the existing legal system
- 1.2 To free themselves from the constraints of money and the pursuit of financial profit
- 1.3 In a way that is loyal, simple, playful with the purpose of enriching each of its members socially, materially and spiritually
- 1.4 In complete independence, freedom, self management and openness
- 1.5 Working within a local territory with conviviality, trust and reciprocity
- 1.6 Respecting the ecological riches and diversity of the local region
- 1.7 Intending to make it impossible for some members to enrich themselves at the expense of others
- 1.8 Being vigilant not to submit to being dominated by any political parties, churches or sects.

## **General Benefits of Parallel Currencies**

Building upon the theories of the past, modern alternative currency proponents built strong links with elements of the economy which were not previously considered to be an important factor. With parallel currency systems, the local area (community) and the environment (ecology) were factored into the new designs.

As these systems began to generate results, the many benefits of them became clearer, drawing a number of academics to begin to concentrate on this new field of economics. Including many non-quantifiable benefits like "increased sense of well-being"<sup>36</sup>, the following benefits have been noted by researchers as well as the users of the systems. In addition to the specific benefits that will be raised in the course of focusing on particular systems in following sections, we can state a number of general benefits of these types of systems.

## **Increased volume of currency and increased velocity in a local area**

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<sup>35</sup>Translated by Jan Wyllie & posted to the Community Currency ClearingHouse (CCCH) discussion group on the internet at <http://www.transaction.net>

<sup>36</sup>Even Gran. Green Domination in Norwegian LETS Systems: Catalyst for Growth or Constraint on Development? International Journal of Community Currency Research. volume 2, 1998. <http://www.bendigo.latrobe.edu.au/arts/ijccr/volume2/>

Given that the volume of conventional money in a local area is scarce, evidenced by the level of underutilized human and material resources in a given area, local currencies increase the volume of money in a local area to mobilize these resources. By tying a local currency to the conventional currency when making a purchase, it can be assumed (and in some cases measured) that the velocity of money in circulation is increased.

### **Increased liquidity in a local area**

Parallel currencies are designed to circulate within specific areas and not leave that area for another, and by staying local work to create more wealth for those in the community. Whereas the national currency drains out of the economy when it is spent at a non-locally owned business, or on goods that are sourced from outside of the community, local currencies remain where they are, increasing the liquidity of money. The effect of parallel currencies working to keep money within a specific area longer is called a "multiplier effect".

### **Increased access to the local market**

By creating a new free market for the exchange of goods and services, participants in local currency systems have a new and stable market for the goods and services that they offer.

### **Increased possibility of local import substitution<sup>37</sup>**

By encouraging locally-generated business, goods and services that were formerly sourced from outside the locality may be substituted by goods produced from within the locality. National and multinational corporations are unlikely to accept local currency in payment, due to the impossibility of repatriating profits.

### **Increased employment opportunities**

By providing a new market for goods and services, the system allows the participants to offer what they want, rather than being forced to perform work that they would prefer not to do if they had the choice. As well as discouraging harmful activities simply for the money, local currencies give their participants a safe way of trying out their new employment choices.

### **Increased importance of traditionally undervalued activities<sup>38</sup>**

Community members themselves decide the value of such things as childcare, artisan skills or community organizing. In particular, this gives them the opportunity to reassess the value of women's work, either undervalued or unvalued in the larger market economy.

### **Discouragement of environmentally destructive activities**

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<sup>37</sup> Jeff Powell and Menno Salverda. [A Snapshot of Community Currencies in North America](http://ccdev.lets.net/snapshot.html). <http://ccdev.lets.net/snapshot.html>

<sup>38</sup> Jeff Powell and Menno Salverda. [A Snapshot of Community Currencies in North America](http://ccdev.lets.net/snapshot.html). <http://ccdev.lets.net/snapshot.html>

Without the payment of interest to encourage environmentally destructive activities for its monetary value, there is no incentive to cut down a tree today in order to begin accumulating interest from its sale. Indeed, in some systems where a negative interest rate is used, future units of local currency are worth more than those exchanged today. This encourages activities which will facilitate future exchanges, such as planting trees.

### **Increased support for small enterprise development<sup>39</sup>**

Rather than relying solely on a high interest commercial loan, entrepreneurs are able to procure at least part of the goods and services they need for startup simply by making a commitment to supplying the fruits of their labour to the community sometime in the future.

### **Increased strengthening of social relationships<sup>40</sup>**

Community currencies are designed and intended to help the members of a society to overcome social inequities based on wealth. An intricate social network is reinforced/created as a by-product of members meeting to value and exchange each others' goods and services. In an indirect way, it may be exactly these social benefits which determine economic success over the long run, such as has been shown by the lending circles program and resulting community cohesion.

### **Exhibition of a counter-cyclical economic tendency**

According to Professor James Stodder's study of business intertrading systems in America, parallel currencies exhibited a "counter-cyclical tendency", a tendency of both the volume and velocity of local currency as well as the number of systems to increase during economic downturns, which he concludes as a natural response to areas hit by economic recession.<sup>41</sup>

## **Arguments against Parallel, Local and Community Currency Systems**

The arguments that are made against these systems are used mostly by large-scale business, foreign-owned business or government representatives who argue that either such parallel currency efforts are a danger to the well-being and economic stability of a community, or that they are simply ineffective at remedying the problems they were designed to solve. The following are some key arguments against parallel currency systems.

### **"Parallel Currency Systems Reduce Efficiency."**

Since the circulation of a community currency is restricted to a relatively small area, it can be argued that little competition exists between producers of the same goods

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<sup>39</sup> Powell and Salverda, Ibid.

<sup>40</sup> Powell and Salverda, Ibid.

<sup>41</sup> James Stodder. Corporate Barter and Economic Stabiliation. International Journal of Community Currency Research. Vol. 2, 1998.

[Http://www.bendigo.latrobe.edu.au/arts/ijccr/volume2/](http://www.bendigo.latrobe.edu.au/arts/ijccr/volume2/)

and services. Moreover, since producers depend on a much smaller market, they will not be able to achieve the same scale advantages as larger producers. This may give rise to higher prices for consumers due to the lack of competition-driven efficiency.

However, rather than replacing the national currency with the parallel currency, consumers generally trade using a portion of the parallel currency in combination with the national currency, therefore producers taking part in the parallel currency systems are not insulated from outside competition. Because usually only a portion of the purchase is made using the parallel currency, producers are not dependent upon the parallel currency system for their income; it is often only the excess capacity that is sold through this system. By making use of this idle capacity, producers actually see their unit price decrease, thus increasing their efficiency.

Even if a parallel currency system grows in economic importance and consumers and producers become dependent on the system for a large proportion of their needs and income, one can enter the discussion of trade-off between economic efficiency and economic stability: at which point economic efficiency (through specialization) starts to endanger economic dependence. Adversaries of these systems emphasize the economic efficiency effect of specialization and consider them to be a disguised form of protection, whereas on the other hand proponents of alternative currency systems emphasize the reduced economic dependence and higher self-reliance as result of participating, and see economic dependency as a potential source of not only economical instability, but also political and social unrest.

One of the fundamental principles of neo-classical economics is division of labour through specialization. Persons, communities, regions and even countries have become increasingly specialized and therefore dependent on external trade. In a dynamic world market, a comparative advantage today is not a guarantee for the same advantage tomorrow. Although it is undeniable that globalization has led to more products available at lower prices, it has also led to increased inequality of wealth distribution, more income instability and enormous transition costs for communities that have lost their competitive advantage. These transition costs include not only a loss of income and employment, but also social costs such as rising crime, drug abuse, prostitution etc. The main form of specialization in developing countries is in agricultural exports. Local economies are left to the mercy of international markets that are completely out of their control<sup>42</sup>.

A degree of specialization is beneficial and community currency systems do not pretend to make communities entirely self-sufficient: products which demand a high degree of specialization and in which scale advantages play an important role are simply not traded within the parallel system. New computers, cars, and other highly specialized products consist of so many specialized elements that they cannot possibly be developed and produced at the level of a community unless all the various factors of production are in place at a cost which is competitive with other sources.

As said earlier, parallel currencies are not intended as an alternative to the national currency. However as a result of specialization, communities have lost a great deal of their skills diversity, making them more vulnerable to outside shocks. If skills in such essential areas as agriculture, housing and clothing are lost because many people

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<sup>42</sup>Wayne Visser: [The Case for Community-Centred Economics](http://stones.co.za/sane/article2.htm). 1996.  
<http://stones.co.za/sane/article2.htm>

specialize in tasks that are only of value in the world market, the community degrades from an economically productive unity into a subsidized collection of individual households that have no viability on their own. A new balance has to be found between the dependence on outside markets and self-reliance at community level. It is easy to lose a skill; it is much more difficult to acquire one. Parallel systems can help to employ and retain skills within the community, thus contributing to their very right of existence.

### **"Parallel Currency Systems Cause Inflation."**

This concern is closely related to the question of whether the new currency system works in parallel or is separated from the national currency and the conventional economy. Do local currencies create new trade or are they rather a substitute for trade formerly handled in the national currency?

If there is a large trade substitution effect, this could mean that prices will rise due to an expansion in the money supply. This is especially true if the parallel currency is issued fiat, in which the money supply is expanded greater than if the parallel currency was issued as partially backed by conventional money or as a mutual credit system. Fiat parallel currency systems can cause inflation if there is too much money in circulation and if this money can not be removed in time. However, only in the case of the Salta Bonds in Argentina has the issue of inflation being caused by a fiat parallel currency been raised. It appears to not be an issue with Hours systems at this stage, however this is one of the reasons behind arguments for what are called "demurrage", "negative-interest" or "depreciating" currencies which terminate after a period of time<sup>43</sup> as a method of controlling inflation.

Trade creation is seen as a way to possibly reduce the effects of expansion in the money supply by providing an expanded range of locally produced goods and services with which to pull excess money out of the local economy.

### **"Parallel Currency Systems Encourage Tax Evasion."**

In most countries, no taxes are payable on purchases of goods or services unless the income is earned in connection with a business<sup>44</sup>, or in an amount above a certain income threshold. Thus many of the transactions that take place are non-taxable. If the money comes through a business, it must be recorded as income for the business's own purposes, as well as for taxation purposes.

Since the turnover and profits of local businesses may be expected to rise after joining a parallel currency system, an increase of tax revenues may even be expected. Moreover, if transactions are registered (as is common in most mutual credit systems), tax evasion of local currency income is practically impossible, even though the system

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<sup>43</sup>The timed depreciation of currency, a method used with the earliest commodity money to represent decay in stocks of food, is money that depreciates over time until it expires, or until its value has been paid in the form of percentage fees. See Bernard Lietaer. *Community Currencies: a Tool for the 21st century*. <http://www.transaction.net/money/cc> section 2.

<sup>44</sup>Richard Kay. [LETS and the Foundation of a New Money System](http://www.gmlets.u-net.com/explore/found/tax.html). Section 3: the tax and benefits position. 1994. [Http://www.gmlets.u-net.com/explore/found/tax.html](http://www.gmlets.u-net.com/explore/found/tax.html).



itself may not divulge this information to a government's Revenue Department. In this case the parallel currency system actually works in favour of the tax collector because an active economy generates tax revenue.

### **"Parallel Currency Systems Abuse the Social Security System."**

Some issues have raised on the issue of receiving Social Security benefits like welfare and unemployment insurance while earning an income in a parallel currency. Given that the social security system was never designed for the modern reality of marginal, occasional and temporary employment opportunities, there have been instances of individuals losing their Social Security benefits because of their participation in a parallel currency system. More and more governments understand that benefit legislation is difficult to apply against individuals who are trying to lift themselves out of welfare dependence by participating in such systems. Recent efforts in Australia and England are showing signs that federal governments are willing to do whatever is necessary to help people get off of welfare and into work, including allowing people to exempt their local currency income from their Social Security benefits.

However, governments may experience a drop in tax revenues if sales of certain enterprises fall because people prefer to buy services and products from individual members (who are tax-exempted) using the local currency. More research would be necessary to examine the importance of this substitution effect and to which degree this tax loss is compensated by overall higher sales elsewhere and decreased expenses on welfare.

In developing countries, the tax evasion argument (and even less the benefit evasion problem) is hardly valid since in many cases such systems do not exist, the incomes earned in the informal sector (one of the main target groups for parallel currency system) are so minimal that it is improbable that they would be taxable. Thus the issue varies from country to country.

Instead of regarding parallel currency systems as a tax evasion problem, many local and national governments now acknowledge the useful role that such systems can play in reducing the costs of Social Security system, providing income opportunities for people at the lower end of the socio-economic spectrum, and increasing individual well-being and the meeting of needs. In Australia, income in local currency is not applied against Social Security benefits; in England, the government has employed civil servants to install systems; in New Zealand people who register as unemployed and looking for work are encouraged to join a system; in the USA income from Time Dollars are exempted from tax<sup>45</sup>.

In developing countries, where formal social security systems are underdeveloped or even non-existent, government support for parallel currency systems is even more desired. In Argentina, the government has implemented a special program that supports the development of parallel currencies<sup>46</sup>. Today there are an estimated 100,000 people

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<sup>45</sup>John Turmel. Aux Adherents des SELs de la France. econ-lets email discussion group. <http://www.mailbase.ac.uk/lists/econ-lets/1998-06/0018.html>

<sup>46</sup>City of Buenos Aires. Trueque Magazine. August 1998. P.25.

participating in such systems nationwide<sup>47</sup>. Furthermore, it permits tax exemptions on income earned in local currency. Some local governments even accept people paying taxes in commodities such as potatoes and milk<sup>48</sup> which some might consider even more extreme than accepting local currency. One possible argument for governments giving preferential treatment to parallel currency systems is that such systems are a financial instrument that reduces the need for government expenditures on income transfers or subsidies, thus liberating public funds for other, truly productive investments such as education and infrastructure.

In short, arguments against parallel currency systems as a way of avoiding taxes are difficult to defend, especially in "developing" countries, and in "developed" countries where governments are going in new directions. Levying "green" or "carbon" taxes on enterprises that use scarce resources (energy, natural resources, space, environment, waste storage and/or transformation, etc.) are a new direction in which some governments are heading, such as Germany. This would make labour cheaper and environmentally destructive products more expensive.

### **"Parallel Currency Systems are Unable to Finance Investments."**

At an early stage in the development of modern parallel currency systems, some argued that the zero-interest policy makes it unattractive for the participants to save money, which deprived participants the savings they need to finance investments.

At first, parallel currency systems argued that they do not pretend to substitute the conventional currency systems, and that they may even enhance the individuals ability to save money for investment purposes. As explained in earlier, the main function of money is to facilitate transactions, not to accumulate wealth. One of the strong characteristics of parallel currency systems is that accumulation of money is discouraged, thus preventing any interference with the function of money as an exchange medium.

Recent developments are shattering this myth. The microcredit concept, in which funds may be contributed from outside, or pooled between the participants and lent in turn have won significant mention for their effects in Bangladesh and India. As will be presented later, joining a parallel currency system to this concept can be very beneficial.

### **"Parallel Currencies are Easily Counterfeited."**

It can be argued that local currencies are easy to falsify, because the high-tech anti-counterfeiting measures taken in the case of national currencies are too expensive for local currencies.

While this may be true, no exchange medium, whether local or national, is completely safe from counterfeiting. From the golden coins of previous ages that were

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See Also: Clarin Digital. La Red del Trueque y el Tejido Solidario. May 17, 1997. Buenos Aires, Argentina. Internet: <http://www.clarin.com.ar/diario/97-05-17/02editor.htm>

<sup>47</sup>See "Red Global de Clubes de Trueque Multireciproco." <http://www.visitweb.com/trueque>

<sup>48</sup>El Informador. Reflotan el Trueque Para Poder Subsistir. January 2, 1997. <http://informador.com.mx/lastest/ene97/02ene97/interna2.htm>

shaved or reduced, to fake credit cards: the fact that money is something that can be counterfeited is and will always be an issue of concern. Nevertheless, the number of cases of counterfeiting of local currencies is very small (although not nonexistent<sup>49</sup>) for several reasons.

The counterfeiting of local currencies is not very interesting for criminals looking for an easy profit while keeping a low profile. As the circle of people that accepts the local currency is limited, and because it is usually spent in combination with the national currency, the would-be thief would need some money of his own if he wanted to spend the money. The chance of being caught is considerably higher than in the case of national currency. Moreover, people within the system are not likely to undermine the system, since they benefit from it. Finally, it is rare that people spend large amounts of money in a short while within the system. People who spend large amounts into the system without having earned them first are easily detected.

Several simple and low-tech measures can be taken to reduce the risk of counterfeiting:

1. periodic recall (timed expiration and/or depreciation and new design of the paper money);
2. use of special colours and/or types of paper, difficult to find or specially made for the purpose;
3. use of off-set rather than photocopying techniques for reproduction;
4. serial numbering the notes;
5. stamping and signing the notes;
6. making an impression on the note (such as the system's logo) using a special stamp or plier.

Other, more high-tech measures can be used, but they require the financial means available for this purpose and on the technical possibilities locally available. The investment made in anti-counterfeiting equipment has to be seen not only in the light of reducing the risk of counterfeiting, but also as a confidence building measure, which is especially important during the early stages of the introduction of the currency. Some community currencies have surpassed some national currencies in their anti-counterfeiting protection. As Paul Glover, founder of the Ithaca Hours says, "multi-colored HOURS, some printed on locally-made watermarked cattail (marsh reed) paper, or handmade hemp paper, some with non-photocopiable thermal ink, all with serial numbers, are harder to counterfeit than dollars."<sup>50</sup>

Mutual credit systems don't have these problems--they can't be lost, stolen or forged. Any misuse of the system will appear in the records.

### **"Parallel Currency Systems Lead to an Informal Economy."**

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<sup>49</sup>One case of counterfeiting has been reported in one of Argentina's Clubs de Trueque. See Camilo Ramada and Egide Maassen: "Trueque: LETS op z'n Argentijns". Aktie Strohalm NGO. March, 1998.

<sup>50</sup>Paul Glover. Creating Community Economics with Local Currency. 1997. <http://www.celestia.com/SRP/AM97/LocalCurrency.html>

This argument also touches the tax-evasion problem dealt with previously. If a substitution takes place from activities formerly done by formal enterprises (who pay taxes) to individuals (who do not pay taxes), one can speak of an informalization of the economy, or in other words, the creation of a black market. This would probably mean that one (taxable) full time job would be lost and replaced by many (untaxed) part-time jobs. Enterprises can regard this as unfair competition because the individual part-time producers do not carry business overheads such as insurance and rents, nor do they comply with requirements for health, safety and fire regulations, food hygiene laws, public liability insurance etc.<sup>51</sup>

On the other hand, it is questionable that this Informalization effect exceeds the new employment and income created as a result of better utilization of the excess production capacity of formal enterprises: while some enterprises might have to cut certain jobs, many enterprises will be able to employ more people as a result of increased sales. The overall effect on employment (and thus income tax revenues) might be positive and the job-loss could be considered a readjustment of the local economy.

Secondly, the term Informalization only means that the income is not considered taxable and that it does not figure in the GDP of the country. It says nothing about the value of that income for the socio-economic well-being of the community. Paying taxes or contributing to the GDP are no objectives in themselves. Taxes are paid in order to correct a skewed income distribution and to pay for goods and services that are not produced by the private sector. If a parallel currency system can turn one full time job into many part-time jobs, it contributes to a more equitable income distribution than can be done through taxation. Jobs are not lost; they are redistributed, which reduces the need for corrective socio-economic measures by government, such as welfare.

### **"Bad Parallel Currency Drives Out Good National Currency."**

Sir Thomas Gresham, financial agent for Queen Elizabeth <sup>52</sup> was not the first to recognize the effects of weak currencies driving stronger currencies for circulation, but his elucidation of the principle that "bad money drives out good" became known as Gresham's Law.

When depreciated "bad" money circulates concurrently with "good" money of high value, the good money is hoarded and "driven out" of the market. This was first noticed when silver and gold were used in coinage--silver was used instead of gold because of its weaker and more unstable value. Speculators would make purchases of gold using silver, and on the mint market (the rate paid by the mint) silver often fetched a lower price than on the currency market, meaning a profit for the speculator. "Bimetallism"<sup>53</sup>, as it is known, was the method of using Gresham's Law in speculation.

Although economists rarely make such claims about parallel currencies, it could be argued that parallel currencies, especially fiat currencies circulate in preference to the

<sup>51</sup>Peter Lang. LETS Work. Bristol. 1994. P. 96-7.

<sup>52</sup>Jay Hanson. The Politics of Development. July 27, 1997.  
<http://dieoff.org/page109.htm>

<sup>53</sup>For a presentation of Bimetallism, see  
<http://www.micheloud.com/FXM/MH/Bimetalintro.htm>

national currency because they are weaker, driving the national currency from circulation and resulting in monetary problems if the use of the weaker currency becomes widespread.

Proponents of parallel currencies argue that their currency frees scarce national currency for trade creation through partial substitution of the parallel currency for transactions that formerly took place in the national currency. By tying the two together in a parallel, rather than alternative system, they argue, Gresham's Law is not entirely applicable. Instead, it may be better to say that the parallel currency pushes the national currency around with increasing benefit to the economy as a whole.

### **The Legality of Parallel Currencies**

Subject to certain conditions, it appears that local currency systems are entirely legal. The American Internal Revenue Service (IRS) has said there is no prohibition of local currency, as long as it does not look like dollars, as long as denominations are at least \$1.00 value, and as long as it recorded as taxable income.<sup>54</sup>

As mentioned previously, LETS credits are exempt from Australia's Department of Social Services income test, meaning that credits earned in LETS are not applied against social security benefits, as long as the LETS is a non-profit, community-based organization which has a proven record of providing a service to keep individuals in contact with the job market<sup>55</sup>.

As far as taxation is concerned in Canada and many other countries, barter or community currency transactions are considered taxable if the trades are regular, are part of capital liquidation, business activity, income generation and the like<sup>56</sup>.

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<sup>54</sup>Paul Glover. The Legality of Hours. Ithaca Home Page.  
<http://www.lightlink.com/hours/ithacahours>

<sup>55</sup>See the legislation on this at the Australian DSS website :  
[http://www.austlii.edu.au/au/legis/cth/consol\\_act/ssa1991186/s8.html](http://www.austlii.edu.au/au/legis/cth/consol_act/ssa1991186/s8.html)

<sup>56</sup>Revenue Canada Interpretation Bulletin. Income Tax Act: Barter Transactions. NO: IT-490. July 5, 1982. Reference: Section 3, 9, 69.

### Part III: The Hours System and the LETS System

The two types of parallel currency in widest use in the world today are the HOURS system, with about 75 systems primarily located in America and the LETS System, with about 2000 systems located in Australia, New Zealand, Canada, America, Ireland, England, Scotland, Sweden, Finland, Holland, Belgium and France. The differences between these two types of systems are complementary in many ways. Let us now look at each type of system in detail.

#### The HOURS System

Communities can also issue their own fiat money, money that is backed simply by the willingness to receive the currency. We will now look at the most prevalent example of this type of currency, the Hours system.

The HOURS system is the most widely used type of fiat currency issued at the local level. The first HOURS system was initiated by Paul Glover in 1991 in Ithaca, New York, and almost simultaneously a system was started in Nelson, British Columbia, Canada. The HOURS system was seen as an improvement on some of the shortcomings of LETS.

The systems uses one hour of time as unit of account, which corresponds to the prevailing hourly wage of semi-skilled labour. This has the advantage of being able to revalue the national unit of currency in case of prolonged inflation, which happens with any national currency. In Ithaca, the HOUR is valued at 10 US\$, but other systems use different standards, such as \$12cdn in Kingston, Ontario, Canada or \$12 US-value in Brooklyn, New York. Ithaca HOUR notes have been issued in denominations of 1/4, 1/2, 1, and 2 HOURS. HOURS are negotiable, which means that some people can charge more than one hour for an hour's work, such as in the case of highly-skilled labour or people who consider their work to be more valuable--however they must first justify it. In the first 6 years of its existence, some \$57,000 worth of HOURS have been issued, and an estimated \$540,000 trade volume was generated within the community between 1,500-2,000 people<sup>57</sup>. Monthly trade volume is estimated at 6,000 HOURS (60.000 US\$)<sup>58</sup>.

The issuing institution is normally an association that holds regular (generally monthly or bi monthly) member meetings to decide how much currency to issue, which community projects receive grants and which participants or projects receive a loan in the local currency. A board of directors, which is elected by the members, oversees printing and issuing the currency.

The currency is issued in various ways. Most HOURS are put into circulation through new members: every new member receives a number of HOURS for placing ads (Offers or Requests) in the HOURS Newsletter. Every eight months members may apply to be paid an additional two HOURS, as reward for continuing participation.

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<sup>57</sup>Ithaca HOURS home page: <http://www.lighlink.com/hours/ithacahours>

<sup>58</sup>Paul Glover. Creating Community Economics with Local Currency.  
<http://www.lightlink.com/hours/ithacahours>

A second source of HOURS are the grants given to community projects. The grants are allocated by the members during the community potluck meetings, where the main decisions are made. About 10% of all HOURS issued go into circulation as grants to local organizations. In Ithaca, by the summer of 1995, over \$4,000 of local currency had been donated to 22 community organizations by the governing body. A third source of new currency are the interest-free loans. Loans are generally issued for periods up to six months. Other HOURS communities, such as the Brooklyn Greenbacks also reward persons who recruit local businesses, members who attend community reserve meetings, and directors who attend board meetings.<sup>59</sup>

It is not necessary to be member of the community, to be able to accept or earn HOURS, use of the currency is open to anyone, making this a truly local currency.

The income to finance all operations come mainly from the HOURS Newsletter, which places listings of Offers and Requests, features articles on local issues, and sells advertising space to participating businesses. The display ads are paid for either in dollars or in HOURS.

One of the secrets behind the success of the HOURS system is the strong participation of local businesses. In Ithaca, HOURS are accepted at many small businesses in the town: stores, landlords, restaurants, movie theaters, a bowling alley, two large locally-owned grocery stores, 30 farmers' market vendors as well as a local Credit Union. Private citizens see the value of the HOURS and accept them as a payment for their work. For businesses, accepting HOURS offer a way of making use of their idle capacity or excess stock. It's also good PR to participate in the system.

Other explaining factors are the dedication and energy of its participants, the simplicity of the system (transactions are not registered, so no complicated computer programmes are necessary), as well as the location of the system in small socially progressive towns. Moreover the fact that people do not have to be member to be able to participate in the system, reduces considerably the entrance barrier.

Currently about 40 Hours systems operate in the USA, 6 in Canada and 1 in the United Kingdom.<sup>60</sup>

### **Benefits of the HOURS System.**

In addition to the benefits of implementing a parallel currency, with the HOURS system, the use of printed currencies corresponds well with current monetary reality. It is easy for people to use them, and for businesses to accept them. It doesn't require a point-of-sale system for taking in HOURS.

The use of a printed currency allows for visual/verbal communication of social goals on the note. This can be very effective in changing people's perceptions in the course of using the parallel currency.

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<sup>59</sup>Thomas Greco. New Money for Healthy Communities.  
<http://www.ic.org/market/money>

<sup>60</sup>See the Ithaca HOURS home page for a list of current groups.

## Criticisms of the HOURS System

The same criticisms levelled against fiat conventional currencies are also made against fiat local currencies. While recognizing that local currencies are beneficial, some community currency proponents are suggesting that HOURS change how their currency is issued.

### **"The Method of Issuing HOURS currency is dangerous."**

By issuing the money whenever someone new lists their Offers or Requests in the Newsletter, the supply of local currency is increasing in proportion to the number of people who participate. This no problem as long as the supply of goods and services in the community increases accordingly. However, like in any fiat currency system, a careful management of the money supply is very important in order to maintain the confidence of its participants.<sup>61</sup>

### **"Lack of circulation creates 'wells'."**

Another problem is when Hours are accepted but not spent, creating a "well" of local currency. Because no records are kept, it is difficult to know where this money is going, and thus where it is getting stuck, starving the system of cash. Or, if too much money is issued then the willingness to receive the Hours currency is reduced, meaning a slowdown in the system. There have been cases of theft of the currency, which can pull large amounts of money out of the system. In Nelson, BC, a robber emptied the till of cash, but threw the Hours away, removing a significant amount of money from circulation.<sup>62</sup>

## Improvements in the HOURS system design

Recently, community currency theorists have proposed that the Hours system use the LETS method of issuance, that money be issued when it is spent, with a promise to receive back the same amount that one spends. This means, in effect, to install a system of accounts through which the money is issued. People do not have to be members to spend or accept the currency, only to issue it. The advantages are numerous, from a more secure form of issuance, to greater guarantee of circulation, to recording of where the money is and how fast it is circulating, to allowing people greater access to credit when they need it. A system of this type is being used in Guelph, Ontario, and in the focus of our study, the Tlaloc system in Mexico City<sup>63</sup>.

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<sup>61</sup>Thomas Greco. Improving Local Currencies, or How to Make a Good Thing Better. 1998. <http://azstarnet.com/~circ/implocur.htm>

<sup>62</sup>Personal Communication with Suzy Hamilton of Kootenay Hours, Nelson, BC.

<sup>63</sup>Thomas Greco. Ibid.



## **The Local Exchange Trading System (LETS)**

The Local Exchange Trading System or LETS was designed in 1982 by Michael Linton, in the town of Courtenay on Vancouver Island, British Columbia, in Canada. Skilled in the use of computers, and having acquired a new IBM 286, Linton took the opportunity to program the LETS using a new database program called Dbase.

His pilot program in Courtenay confirmed his theories of alternative local currencies, and he reported these findings over the precursor to the internet, the BBS. Soon, he was travelling to different countries distributing his system, presenting his ideas, and making a clear and compelling argument for the introduction of community currencies. Community currencies for Linton are currencies for use within a specific community within a specific local area, the community being defined as the users of the system who open an account.

His LETS became the model for the Hours system, and his theories and arguments defined the field of new economics and revolutionized the study of parallel currencies.

Due to the heterogeneous and parallel development of LETS systems, a number of variations have appeared, of which the Tlaloc is one variant. In response, Michael Linton has produced a manual which defines his design, the LETSystem, so that it can be distinguished easily from these variants. Please note that we will distinguish between Linton's "LETSystem", and the "LETS systems" which vary on a number of points.

We will present the elements of the LETSystem, then present some ways of altering the design of the system to take a variety of local realities into account.

### **How LETS Works**

When a person opens an account in a LETS, they list the goods or services that they are offering or requesting. This is added to the existing Noticeboard or catalogue of Offers and Requests, sorted by subject with the person's name and contact information.

They receive an account identifier, which can be either an alpha password or number.

Transactions in the system's community currency are recorded by the person making payment, using one of three methods: telephoning the transaction into the LETS Office, recording the transaction on a cheque, visiting the LETS Office to record the transaction in person. The currency does not exist on paper, but simply as electronic credits recorded in a computer.

Thus, a free market is created in which the members trade with each other using the community currency, or the community currency in combination with the national currency. If the two parties to an agreement have what the other wants, they may exchange the goods as with traditional barter.

On a regular basis throughout the year, the account holder will receive a statement detailing their trading during the previous period.

### **The Fundamentals of the LETSystem**

The LETSystem seeks to deal with the problems associated with conventional money. It is designed to fill a particular economic niche that is not satisfied by the conventional economy. As we saw in the previous section on the economic theory of parallel currencies, because there is little relation in the conventional economy between the velocity of the currency and the money supply, in times of economic downturn a parallel currency is needed to supply sufficient liquidity to those who need it. A mutual credit model, as we will examine here, provides a sound method for increasing the money supply and velocity of the parallel, and the conventional currency.

There are three underlying considerations which define the field of the LETSystem, and they are community, personal and practical considerations. Community refers to a finite group of people who decide to participate in the LETSystem. Personal refers to the commitment made by the participant to receive the local dollars that he or she has spent. It also means that there is no third-party control over the money that is issued, and that the money cannot leave the system. Thirdly, the LETSystem adopts a practical stance by tying its currency to the unit of measure of the national currency. Thus the name of the local currency in the LETSystem may be associated with the national currency while making the difference clear. For example, the LETSystem currency has been called "Green Dollars", "Green Pounds", or names that reflect the local culture or the character of the community like "Watts", "Bobbins", and etc.

The LETSystem is a parallel currency. Rather than proposing to replace conventional money, the LETSystem is designed to integrate with all aspects of economic and financial activity.

From the three underlying considerations, there are five fundamental principles. Firstly, the "cost of service" principle, which establishes that the system will charge the members only what is needed to cover the costs of operating the system. Secondly, the principle of "consent" results in the flat start of zero for all accounts, and is later defined further in the account holder's agreement. Thirdly, the principle of "disclosure" establishes certain rights to information about the system and its users to each other. Fourthly, is the principle of the LETSystem currency being equivalent to the national currency. Fifthly, and perhaps most importantly, the principle of "no interest - no commission" which means that no interest is charged, nor paid, on either positive or negative balances.

### **The Account Holder's Agreement**

These principles are enshrined in the account holder's agreement, the contract of commitment between the user of the system and the community of traders:<sup>64</sup>

1. A LETSystem is operated as not-for-profit agency whose rights and authority are vested in a Trustee who acts as an agent for the members who are principals. The LETSystem provides the service that allows members to make offers or requests for goods and services for exchange with other members of the system, and to maintain such accounts of trading as members request.

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<sup>64</sup>Michael Linton & Thomas Greco. LETS: The Local Exchange Trading System. Home! A Bioregional reader. Gabriola Island, BC: New Catalyst Publishers. 1990.

2. The LETSystem maintains a system of accounts in the system's currency, the unit of value being equivalent to the prevalent legal tender.
3. All member's accounts start at zero.
4. The LETSystem acts only on the authority of a member in making a transfer of units of currency from that member's account to the account of another member.
5. There is never any obligation to trade, but member's must be willing to consider trading in the local currency.
6. A member may know the balance and turnover of another member.
7. No interest is charged or paid on balances.
8. Administrative costs are recovered from member's accounts on a cost-of-service basis.
9. Accountability for taxes incurred by members is the obligation of those involved in an exchange. The LETSystem assumes no obligation to report to taxation authorities or to collect taxes are on their behalf. (In many countries, exchanges that take place using the system currency are considered taxable).
10. At termination or dormancy of a membership, the account holder is required to return their balance to zero before leaving the system.

The last item of this agreement was added later to satisfy the concerns of those who fear that people will join the system, spend a lot of money, then leave the system. This item calls for the member to be responsible for returning their balance to zero before leaving the system, and in some cases this can even take the form of a credit arrangement, requiring that the negative balance be made up with either conventional money or local credits, which may also be announced publicly. While this puts the proponents and the members of the system at ease, the opponents argue that such a rule is an unnecessary interference, that it shows a lack of trust in the honesty of a participant, and that it is not necessary to close a member's account.

### **Variants of the LETS System Design**

Taking a variety of local factors into consideration, a number of LETS systems have added or changed aspects of their system. While this is generally discouraged by its designer for reasons of stability, the possibility of future interaction between systems, and basic uniformity between systems that share the same name, some of these options are gaining wider acceptance while retaining the basic elements of the design. The following are aspects of the systems which may vary from locality to locality.

### **The Noticeboard of Offers and Requests**

The Noticeboard of Offers and Requests, although it is of a very simple design, has been altered to take additional forms of information into account, such as details about the product or service offered, or the individual making the offer or request, etc. The Noticeboard need not be printed, nor electronic, but can simply be a Bulletin Board set up in some central location. In some places, what is being offered or requested is communicated by word of mouth.

## The Type of Currency Used

Recent developments in LETS software allows for the use of multiple currencies. Normally this is intended to allow trading within a few different communities. However, it may also facilitate trading using a few different currencies. These currencies may take the form of Hours of time, or in units representing another standard of value which goes against the principle of complementarity and equivalence to the national currency.

Or, the currency may take a more physical form such as a bill or card or cheque. As with the system in Guelph, Ontario which was originally a LETS, and with the Tlaloc system, which uses a cheque-note, the currency can circulate outside the community of account holders, something which is not a part of the LETS system, which serves a defined community.

## Negative Interest

While it is generally agreed that interest must not be paid to people with positive balances, as this encourages hoarding, there is disagreement on the issue of whether interest should be charged on these positive balances.

Proponents of "demurrage" or "timed devaluation" of the system's currency argue that it encourages increased circulation, and discourages hoarding of the system. Opponents argue that it is an unnecessary interference in trading, and can actually discourage participation. However, such "rusting" of the currency's value was a common aspect in the alternative currency systems of the 1930s, and it was found to work quite well when managed properly.

## Benefits of LETS Systems

1. LETS Credits stay local, increasing the local money supply, generating employment and economic activity at the local level. They can not leave the locality for another area.
2. LETS provides a new market that gives new and local businesses an advantage over large and non-locally owned enterprises.
3. LETS encourages neighbourly behaviour and an increased sense of well being among the participants.
4. LETS is a non-profit organization run at the cost of providing the service, and so the fees are very low for participants.
5. LETS reduces pollution. Transportation of goods between areas is a major source of pollution. By trading locally, and by encouraging local production and repair, goods operate more efficiently and last longer.
6. LETS encourages cooperation, bringing people with similar skills together to form cooperative enterprises to take on larger projects.
7. LETS Credits are interest free, and available without limit, as long as the individual issuing the money is willing and able to make up that credit at a later time.
8. LETS Credits cannot be lost, forged or stolen, have no value to non-members of the system and are legal.
9. LETS systems build trust between people by giving them responsibility for issuing and backing the value of the LETS Credits.

10. LETS encourages local import substitution, taking advantage of an increase in the money supply and economic activity, cooperation between participants, and access to a new local market.

### **Criticisms of LETS Systems**

Previous studies have revealed a number of criticisms of LETS, criticisms which focus on the promotion of the system rather than its fundamentals. Criticisms of some aspects of the design have led to the deviations presented above.

Researcher Sidonie Seron<sup>65</sup> identified a number criticisms of LETS in her 1995 study of the Manchester LETS system, including:

**1. "LETSystems have only a limited impact."**

The lack of research and adequate funding is slowing down the development of improved designs. Participation in LETS is rather small, with the largest system comprising only about 1000 members.

**2. "LETSystems have a strong alternative image."**

The logic and language aims at a particularly "alternative" group of people, rather than stressing more general benefits which may encourage broader participation.

**3. "LETSystems are vulnerability to potential abuses."**

Although the system is not responsible for the abuses committed by members, the freedom it gives members leaves it open for potential abuses. These abuses may take the form of renegeing on one's commitment to earn local dollars, trade in poor quality goods or services, to not fulfill contracts with another member, or some members taking advantage of another for their own benefit.

**4. "LETSystems lack formal organization."**

The LETSsystem is generally an unregistered organization, and the registration of some systems has led to arguments over the issue of formal incorporation as a society. The lack of formal organization of LETSsystems, it is argued, may deter honest people and those concerned about potential abuses from participating.

**5. "LETSystems could be taken over by commercial interests."**

Seron argues that a commercial interest, properly funded and professionally administered may either take over the LETS system, or establish a better alternative. In fact, this has already occurred in Canada with Mutual Exchange Canada, a corporate business-to-business exchange system that is modeled identically on LETS, without the criticisms.

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<sup>65</sup>Sidonie Seron. Local Exchange Trading Systems. Master's Dissertation, Faculte de Langues et Communication, Departement des Langues Etrangeres Appliquees, Universite de Bourgogne - Dijon. 1995. <http://gmlets-u-net.com/resources/sidonie/home.html>

## Part IV: The Tianguis Tlaloc Local Currency System in Mexico

The Tianguis Tlaloc is a hybrid LETS / HOURS system established first in 1994 in the state of Oaxaca and later in Mexico City in 1996 by the Promocion del Desarrollo Popular A.C. (PdP), a 30 year old non-governmental organization. The name 'Tianguis Tlaloc' is derived from the Aztec words 'tianguis', meaning "open-air market" and 'tlaloc', the name of one of the Aztec dieties related to water, rain, thunder and life. It also happens to be the name of the street in the low-income neighbourhood where the PdP's office is located.

Taking the advantages of both the LETS and HOURS system while removing the negative aspects of both in this complementary hybrid, the Tianguis Tlaloc uses a printed currency as a medium of exchange, featuring scenes of Aztec life, suggestive of the rich cultural history that Mexicans share. The currency is issued like LETS, of the mutual credit type as described in the above section on LETS.

Over its long history, the PdP has initiated many grassroots initiatives to address poverty and development concerns, providing advice, logistical support and information. In 1989, the PdP launched "LA OTRA Bolsa de Valores (THE OTHER Stock Exchange) as a project and a journal, which, according to the PdP's executive-director and architect Luis Lopezllera Mendez, "a systemic approach to networking NGOs and relevant grassroots groups in order to share knowledge and opportunities related to self-reliance strategies. The Tianguis Tlaloc is a product of this process."<sup>66</sup>

The idea to implement a parallel currency began in July of 1993 with a visit to the PdP's office by Mark Kinney, an American anthropologist and historian who lived part of the time in Mexico City, who suggested the implementation of a parallel currency. His article on local currencies was published in the OTRA BOLSA de Valores journal.

The next year, in 1994, an attempt was made to launch the 'Boja' currency in the Mezquital Valley in the state of Oaxaca. However, the rebellion by the Zapatista National Liberation Army in the neighbouring state of Chiapas raised federal government concerns that the parallel currency was being used to extend the range of Zapatista control, and thus it was terminated some months later.

The Tianguis Tlaloc was introduced in 1996 through LA OTRA Bolsa de Valores by trying to recruit the magazine's subscribers. Luis Lopezllera says that they "realized that many of them belong to organizations in the middle level, linked with the development cooperation issue and dealing with subsidies, foreign aid, "development" projects....but few are skillful or personally involved in productive and common services. Many were interested in the theoretical approach of 'alternative currencies' –as professionals already with a job—but very few in personal need for expanding a mutual aid system for themselves. So, without disregarding them, we started putting the accent on individuals, families and grassroots movements, less ideological but linked by geography, trade or social need/aims. 1998 was an important year for this strategy."

The Tianguis Tlaloc was introduced to the public through neighbourhood markets that were set up by the PdP, featuring home-made goods and hands-on

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<sup>66</sup> Personal correspondence with Luis Lopezllera, 1998.

services. It did not take long for the numbers of people using the Tlaloc to grow to a few hundred.

### **How the Tianguis Tlaloc Works**

The Tianguis Tlaloc, like LETS, is a mutual-credit system in which members agree to accept payment, in whole or part, in the form of credits called Tlaloc and Tequio. When a new member joins the system, they receive 15 Tlalocs and 50 Tequios. The Tlaloc is a type of cheque-note<sup>67</sup> of a specific value, either ½, 1, 2, 3, 4, or 5 hours of time, with one hour the approximate equivalent (at time of writing) of 25 pesos or 3 dollars US<sup>68</sup>. Tequio, meaning "communal effort" in Aztec, valued at 1/30 of a Tlaloc or about 1 peso. Tequios are used like small change, and issued in denominations of 1, 5 and 10 Tequios.

When the Tlaloc is spent, the person making payment and the person receiving payment sign the note, activating it into circulation. Subsequent recipients of the note sign the back. Both giver and receiver keep their own personal account, delivering a transaction statement to the central office when their form is full. Once notes are full, they are also returned to the office and are entered into the accounts. This feature of the note allows the administration to determine how much business has been facilitated by the community currency note between the time of its issuance and replacement.

Thus the method of issuing the currency is the same as LETS, using a printed currency based on units of time like HOURS. A catalogue of Offers and Requests is published every four months, and is identical to the catalogue published by both LETS and HOURS systems.

As is usual in transactions involving parallel currencies, traders usually accept Tlalocs in payment for goods and services up to about 30% of the purchase price, as recommended by the PdP.

In the beginning, new members also received a 40 hour credit to their account which could be spent using a cheque which would allow the user to name the amount they wished to spend. However the complexity of this system did not go well with the majority of people and was discontinued.

Thus the Tlaloc system has the advantage of ease of transaction offered by the use of the printed cheque -note, with the sound method of issuance offered by the system of accounts. The bill allows transactions to take place between people who may not be members, unlike the LETS system where transactions can only take place between members. The method of issuing the Tlaloc allows the members to issue their own money, unlike the HOURS system where the currency is issued to them and activated upon joining.

There have been three printings of the Tlaloc currency, and an issuance of US \$58,710 worth of Tlalocs, with the potential of each note to be exchanged 10 times before being redeemed, thus achieving a ceiling of US \$587,100 of economic

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<sup>67</sup> Notes can be seen at <http://ccdev.lets.net/incambio.html>

<sup>68</sup> <http://ccdev.lets.net/pdp.html>

activity before the first note needs to be redeemed (assuming that all notes are filled before the first one is redeemed.)

### **Research Methodology: Participatory Action Research**

This study is a joint study conducted by Stephen DeMeulenaere of Canada, Luis Lopezllera/PdP of Mexico. Up to this point, this report was written by Stephen DeMeulenaere. Now it is Luis Lopezllera's turn to present the Participatory Action Research Component of the project. You may notice a different tone of writing voice beyond this point.

In the realization of this study, we distinguish but do not separate between the group that promotes the Tianguis Tlaloc system, and the team conducting the participatory action research. We see PAR as a task conjoined between those responsible for the creation, the clearing of obstacles, the improvising and creative use of opportunities, the questioning, information-generating and systematizing activities as a parallel action of conscience, reflection and co-strategizing. Thus this research project is open to all who use the Tianguis Tlaloc and have expressed interest and commitment in developing its potential with resulting benefit to not only the study, but to the system and to society.

### **Objective of the Study**

This project will study the experience of a community interexchange system of producers, servers and consumers called “The Other Stock Exchange” and the “Tianguis Tlaloc” to determine and gather appreciation for the potential of this type of system to ameliorate the economic conditions of its members and the impact on society in general.

In the first world, numerous systems exist (LETS, HOURS, Time Dollars, SEL, Time Bank, WIR, etc.) which have started within the last two decades, but without sharing their knowledge with the Third World. This study will focus on the Mexican experience, as a contribution to the development of parallel currency systems in the developing world, alongside other projects and efforts now underway in Argentina, Thailand, Senegal and in other places.

We will present what we know regarding the participation of members in this system and explore the obstacles which impede greater participation. Equally, we will present the lessons that we have learned by operating this system, its limitations and possibilities.

### **Participants**

Project Partner  
Promocion del Desarrollo Popular A.C.  
President  
Arq. Luis Lopezllera M.

PAR Research Team



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Tianguis Tlaloc Promotion Team

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Esteemed Individuals from Prestigious Organizations

Ari Kahan, Rael Romero y Enrique del Toro

Most importantly, we would like to thank Stephen DeMeulenaere for proposing, assisting and stimulating this project, and Thomas Greco.

## **Introduction**

The experiences of local and community currency in the first world have grown significantly in the context of an economic crisis which has caused great unemployment and social conflict beginning 25 years after the Second World War. The recurring crescendos of crisis in the capitalist system resulting from world wars, cold or hot wars, frontal wars or low-intensity conflicts. With the dismantling of the Soviet Union, the capitalist system has become the hegemonic economic system.

Despite all of the technological advances being made in the first world, poverty, unemployment, social strife, crime are manifesting themselves as serious social crises, creating a new generation of marginalized youth and minority groups. It is this exclusive opulence of the first world that we in the third world see, not what is hiding under the thin veneer.

In the case of the third world and Mexico in particular, we see a series of juxtapositions and hybridisms that join at the intersection of east and west. The conquest, colonialism, liberalism, revolutionary semi-socialism and now technological and financial hyper-capitalism. Growing poverty in Mexico is resulting in a rise of misery that contrasts starkly with the cultural riches of a society subsisting on the determination to not be made extinct.

If the majority of Mexicans respond docilely to the dominant logic, or manifest their frustration in various negative or reactionary ways, they will have difficulty seeing the positive initiatives and alternative methods that can serve as a base for a new way of living and progressing.

The big question at the center of this study is to present the use of money (the giving, receiving and exchanging of value) without also giving away our values in the process. We see the use of a parallel currency as a 'moral duty' and a service to society to resist the use of quantification and monetarization, and essential to returning to a state of true living.

## **National Setting: Poverty and Globalization**

### **Mexico, various worlds and various players**

There are many worlds and economic players in Mexico, who overcome and relate to each other in an environment of isolation and emptiness, exclusions and conflicts, enlistment and alliances, etc. These world and economic players can be distinguished by:

- extreme poverty
- an informal economy
- emerging, precarious microenterprise
  
- established enterprise
- large national enterprise
- state-owned petroleum business
  
- the transnational corporation
- financial speculation
- trafficking of narcotics and crime in general.

One could say that they comprise of three universes:

1. The traditional rural, inherited from a long history of indigenous races, conquered and colonized, independence, and civil wars, interventions and revolutions, and in which the interests of the indigenous and country person have nearly always been sacrificed for the interests of others.
2. The urban industry, of the 20th century and especially World War II, when Mexico urbanized and industrialized following the CEPAL guidelines, and national development, creating national corporations with a protected internal market.
3. The global transnational, characterized in Mexico by the implementation of machines and the emphasis on agricultural exportation and the penetration by transnational corporations in the search of inexpensive labour and limited ecological controls. This transnationalization, started in the 1980's was

accompanied by extremely high levels of monetary speculation and economic debacles: the devaluations and inflations of 1976, 1982, 1988, and 1994.

The extreme poor, 60 % of the population, belongs to the first 'universe' and today it is common not only in rural areas, but also in the peripheries of large cities, citing Mexico City as an example of a monstrous accumulation of misery, declining middle classes, violence of all kinds and a wealthy top controlling the finances and communications. Workshops, farms, and emerging micro-enterprises, except those directed at the external market, do not prosper. Poverty expelled the countryperson not only from the country but also from the country (Mexico), as they immigrated clandestinely to the U.S. where a reduced percentage do obtain work allowing them to send important resources for sustaining their families.

### **Already an Historical Crisis**

The urban and rural poverty and the environment are mutual degrading. It is believed that a large gap between misery and opulence, and the development models oriented towards the poor classes, its projects and sparse financial investments are not producing sustainable results, are generating unemployment, failure of small businesses, reduction in the capacity to acquire, and a great amount of frustration. The microeconomy is doing well, say the official economists, who deny the crises. However, the people do not agree because their homes and the microeconomy are going so badly. We live in the middle of an historical economic and political crisis accompanied by a profound lack of welfare in the population, and where, whether globalizationist or populist, people butt heads, neutralize each other and are frustrated, without finding a proposal for an alternative unifying convention. The Mexican state, product of semi-revolutionary regimen (1920-1940), of a mixed economy (1940-1970), populist (1970-82) and today, neoliberal (1982-2000), matured, though it cannot resolve the majority of the problems. The presidentialist regime is in crisis and a large quantity of resources are spent in convincing that there is a representative democracy through costly electoral and media campaigns, working with civil movements, ensuring the strengthening of an apparently democratic political regime, but one which is functionally demagogic and techno-authoritarian.

### **Globalization and Its Terrible Effects**

The dominant visions respond to rapid "globalization", incubated and shared by highly industrialized countries, and this globalization is supported by:

- an historical concentration of capital
- unlimited and selective financing
- advanced technology and instant communications systems
- world organization for production (including space exploration and never-ending weapons)

- use and abuse of mass communications
- dissemination and predominance of consumerism

The effects of this model are very alarming after they result in robotization of work, massive unemployment, anguish and lack of confidence, rupture of community fabrics, increases in crime, accelerated degradation of the environment, altogether creating unpredictable confusion for everything in the dependent countries (insurrections and massacres, - for example, Chiapas -, multitude of protests - for example, El Barzon-, youth fastings, - for example, the university strike-, crimes, fires, starvations, epidemics, etc.).

## **STATE, MARKET, ...and SOCIETY**

### **New Vision and New Laboratories**

If the U.S and Russia embody, in an extreme and triumphant model of globalization and on the other part collapse of the State, Europe follows a “Third Way” which purports to resolve the contradictions of its present model, and China even mixes capitalism and socialism with predictable results. New laboratories are developing in different parts of the planet. A new vision is developing which permits:

- restoration of confidence between different sectors, and in the creative value of the people themselves.
- activation of the work force.
- satisfaction of the basic needs of the majority not only with a character of self-sufficiency if not already developed and truly productive.
- organization of a social economy that cherishes ecology and cultural ownership.

The two-part name, “Market” “Economy” in its historical compositions and strength, results in favoring “Globalization”, a type of totalitarian market, with the cited effects. Presently a lot of energy and resources are being used in electoral activities which demonstrate the battle to obtain votes for the political leaders, based on public image and very general principals (Democracy, Elimination of Poverty, Environment, Culture), in which practically all coincide (except in the Nationalist-Neoliberal conflict, which proposes Bureaucracy-Speculation), but do not consistently debate hypothesis towards an authentic resolution.

Before this, it is important to recognize the “Society” as the principal vector of a new vision. A society which is capable of generating, in conjunction with the reformed institutions of the “State” and the “Market”, new models of governability backed up with true security, and new market methods, and social markets with “multiple levels”, indicates a true sustainability.

## **One Hundred Eighty Degree Turn**

This implies a 180 degree turn in the vision of the Mexican leaders. No longer hypnotizing itself of the gold-diggers and international world consumer interests or involuntarily displacing the self-consumption of the majority of our population, starting from real economic values however modest they may seem.

This implies a comprehension of the cultural values of our people, which maintains individualizing aspects before the collective. It reminds us to conceive of a synergy between highly competitive but also profoundly critical cooperatives. From there, the universal techniques of capacity, administration, productivity, conventional market, capitalization, financing, accounting, are very important and always adapted to cultures, ethnicity, social situations and poverty. But there are points more relevant than others emerging today, like the following:

### **SOCIAL MARKETS AND ALTERNATIVE CURRENCY**

#### **Commercial “Development” Bank, and ... Social Banks!**

In this challenge of creating social markets, a determining element is the bank/monetary factor. Commercial banks and development banks have left two failed models, with the evidence resulting from the collapse of the first and the frustration of the second. A universe of insolvent debtors conforms to the usury rules and thousands of popular microenterprises without customers. The problem is not only financing, faced with great speculation and dominant volatility, it is also monetary. The objective weight cannot be stable in stopping sovereigntists, with powerful voices the private sector clamors for a Monetary Counsel which sets the Mexican peso to the dynamic and value of the American Dollar. But this would make us even more dependent because of the external dynamics.

The popular forces, like the savings and loans cooperatives (credit unions), union houses, etc., can barely face up to a drastic devaluation or a cutback in wages to address the high unemployment or the lack of investment. Therefore, in most industrialized countries and also in the Third World, self-governance of alternative money, social, local or community currency is practised, with the goal of protecting and fostering, through networks, the local, regional, and microenterprise economy.

Official money enters the equation but leaves more quickly (by the consumption of imported products which are increasingly more transnational) and returns to accumulate in the pockets of a few. Social money (or non-money, since it neither is hoarded nor subjected to lucrative fines: it is merchandise which generates interest) serves exclusively by counting and credit (mutual confidence) to barter goods, products, services, and knowledge in a true geographic association, guild association, or even telematics (Internet). It stays in the hands of the association, the community, locality or network, amplifying the financial capacity, this time dual, external and clean, and at the same time

generating a greater profit margin on labour, providing the incentive for solidarity and horizontal responsibility at the same time.

Official money and social money are complementary. From it has resulted in a process of transferring credibility from the macro or mega-institutions - as abusive as they are disappointing--towards a more tangible credibility which is more reconstructive of responsibility, from group to group, person to person, at micro (including molecular) levels. Multiple experiences in Argentina, Ecuador, Mexico, as well as Africa, Asia, Australia and above all, United States and Europe, support this issue. Notice the recent experience in Toronto, Canada.

These experiences, starting with people and no money, are more visionary and promising than the current microfinancing models of the World Bank, inspired by the Grameen Bank in Bangladesh and adopted at the Microcredit Summit in Washington.

### **For a Meso-economy Combining Sectors and Leadership**

The debate between micro and macroeconomy is a classic one. In the middle are many gaps. It is felt that the creation of a meso-economy that is built upwards and downwards, starting from reality and not illusions.

A new market that supports economic diversification, not only towards the exterior if not principally towards the bottom and inside demands the participation of diverse sectors, principally the public, private, and social ones, but also the academics, the religious groups and the media, and each of these with its increasingly important international dimension. Before the atrophy of the public sector, the private and social sectors were generating new institutions and networks that should summon everyone together to create synergy and to create new opportunities.

The non-profit business sector counts amongst the numerous organizations which can assume work that is not only the final judgment but also co-assisting in the creation of our own microeconomic policy: FMDR, ADMIC, FUNDES, FINCA, PROEMPLEO, Miguel Aleman Foundation, CEMEFI, etc. Equally, a number of NGO's from the civil and social sector can be added, such as various foundations and networks (DEMOS, VAMOS, Support for Youth, Idea Panel, "LA OTRA Bolsa de Valores", TLALOC network, etc.). Finally, international networks, like LETS (Local Employment and Trade Systems), time banks, alternative commerce (Max Havelaart, OXFAM, One Thousand Villages, etc.), Future Laboratory, etc, can be added successfully.

With each abbreviation is an identifiable personalized leader, individual or collective, which guarantees not only a politician but a will, capable of transparency, examination and working with others.

### **Goals of Tianguis (Completed in 1999)**

To create a network system of producers, service providers, and consumers, which contributes to reorganizing the economy for the purposes of society and not money;

Target a humane economy where personal and community values/links of a local, union, or systemic basis, have prevalence over taxes for the anonymous, monetarized and exclusively hostile market;

To create an association which achieves an authentic domestic market improving the production and service capacity of its members, consumer orientation and education, and cultural and ecological activities;

To recover the values around mutual help, valorization of unpaid work, and meaningful work;

To recreate a spiritual life that puts in the forefront human values and to have an affect on the materialists who base themselves on money, power, violence and victory;

### **Strategic means**

Utilize exchange notes TLALOC y TEQUIO to create more work opportunities, economic interaction and mutual support, combining individual progress with increasing collective opportunities; equally, to practice barter, gift exchange and donation;

Increase local groups (for example, a neighbourhood), guilds (e.g. health) and systems (e.g. "LA OTRA Bolsa de Valores", Internet) that are enriching and condensing this proposal;

The organization of guilds specializing in issues of well-being. For example, health, crafts, food, ecology, art and culture, accounting, education, microenterprises, languages, etc.;

Combine emerging microenterprises with established businesses in order to stop the gap between micro and macro, between the formal economy and the invisible, informal one, towards an integral solution;

Public use of idle infrastructures, with installed amenities, of wasted skills, equal to the promotion of continuing education, arts, sports and logic which have been displaced by the dominating market (which works to exhaust and impede for the simple reasons of vocation and capacity);

Relate urban and rural initiatives to close the existing gap between the country and the city, creating concrete solidarity between country and city producer groups with multiple services;

Combine traditional, unsustainable contributions of energy, creativity, and learning skills with youth and children as well as adults and seniors;

Connect with the savings/credit union and cooperative movement to realize the slogan: "For a Capital (city) in the hands of the public";

To compromise between the forces to create opportunities for the poor "within" the system (strategies for microenterprises, microcredit summit, Grameen Bank, World Banks, PROGRESA, etc.), with the significant forces favoring alternatives and systemic changes (bioregionalism, emerging or indigenous identities, LETS, fair trade, regulation of speculation -Tobin tax-, forgiveness of international debt -Jubilee 2000- , city halls, etc.);

Large businesses, development and philanthropic agencies and spontaneous or organized altruism are invited to back up these systemic forces which aim for a dignified and sustainable life;

Towards a strategy of emerging values centered around a mutation rather than in mere reforms.

## **Sponsorship**

LA OTRA Bolsa de Valores” (“The OTHER Stock Exchange”) has existed in the form of a sponsor. This consists of information, study, diffusion, animation and, notably, in the editing and distribution of the “Yellow Pages”, also known as the Tianguis Bulletin. This bulletin is published quarterly. It contains a directory of associations, classified ads (offers) and articles and notices about similar experiences in other parts of the world.

Equally, the sponsorship of the Promotion of Popular Development Non-Profit (PDP), which has supported the Tianguis TLALOC logistically and institutionally, absorbing further contingency costs and a float. PDP is an established organization credited over the decades although now reduced to a minimum of activity, in part from starving for external resources and in part from conviction. It has not succeeded in protecting economic resources specific to the Tianguis TLALOC initiative, which was basically developed by volunteer work.

This volunteer work has counted some eventual successes according to the emerging tasks which are resulting in two study contracts for PDP:

1. The Xochimilco Delegation contracted with PDP a study to propose a Plan, like the results under the Pochteca Plan. October 1998-March 1999
2. IDRC and VIDEA, to support a general study of the experience and to review the method of participatory action-investigation, as well as directly or indirectly supporting the process of Tianguis. June 1998 - October 1999.

## **System Network**

During the last four years of this experience, from 1996-1999, 114 partners from Mexico City and the Metropolitan Region and another 20 individuals who function as correspondents inside and outside the country has been achieved as of June 1999.

This partnership is composed of proponents from various social, ecological, traditionalist, religious, business groups, etc., but without dealing with specific neighbourhood concerns. This way, we have components which spread over the center of the city, for example in the Condsa “Colony” or the Tlaxpana “Colony”, or in more distant locations like Xochimilco in the Federal District, or Toluca, Malinalco, or Thalmanalco in the State of Mexico.

It is calculated that Tianguis has directly enrolled over 200 individuals and microenterprises in its evolution. The present number results from a constant enrollment, participation and evaluation process, in which every three months individual members are eliminated and new ones incorporated.



It is possible to classify the actual membership in three categories: Very interested (20), participatory (30), and passive (the rest). Another 'common strategy' may be created, which will result in more and more, but without involving Tianguis.

The network system is supported by databases, a quarterly bulletin (1000 copies), the distribution of which has been done in a limited way (500 through "La OTRA Bolsa de Valores" and the rest through associations and in a casual way at events and through diverse contacts). It was intended that a web-page would be created, associated with "LA OTRA Bolsa de Valores" but this step has barely begun.

The bulletin is published with two sections: 1) Notices and articles which encourage reflection and the activity in community currency. 2) Directory of the Network System components, offers and specific ads. The offers are presently classified in 30 categories:

Administration and Business Support	Agro-ecology Food
Art and Culture	Craftmanship and Gold/Silversmithing
Financial advice and Accounting	Consulting
Legal advice Audiovisual	Construction Sport
Economics and Financing	Education
Electrical repair	Family and lodging
Personal and human development	Languages
Quality / organizational development	Gardening and horticulture
Literature and editing	Marketing and business development
Non-profit, community, society	Publications
Health	Children/Infants
Services	Social work

Originally requests were published, but this was suspended due to space and on the basis that it would create demand. However, this decision is currently under revision. The period of the bulletin is every three months and it is hoped to publish it more frequently, at least every two months, so that new members do not have to wait so long to be announced, but the resources and better means of distribution are lacking.

### **Promotional Team**

The promotional team have been successfully integrated which has solidified the basic PDP and LA OTRA Bolsa de Valores groups. This team consists of fifteen effective individuals and weekly gathering each week, between noon and 3 o'clock, with a regular attendance of 6 to 8 people plus occasional guests. The cost is free, open to all Tianguistas and guests, and results in an excellent democratic 'cell' which makes decisions by consensus and not by majority. They study ways to run assemblies with the participation of the majority of Tianguistas, but a majority of these are more interested in the pragmatic functions. Thus the language developed is that of service, productivity, offers

and requests, and credit generated. The result is distinctively democratic, based on who contributes most in these categories and not in who speaks the most or expresses ideas “so that others carry them out”.

The method of consultation has been practised. For example, the organizers for the August 14, 1999 fair celebrated three consultative sessions, on different dates and times, to give the opportunity to all Tianguistas to give their opinion and participate in different organized workshops. They achieved the direct consensus of 50 Tianguistas.

The promotional team operates as a volunteer work base and offers occasional or permanent rewards. PDP in its limited capacity donated a few hours per month to support certain components of the system: Luis Lopezllera, Cristin Lavalle, Alvara Navarro, Gabriel Hernandez, Xavier Vizcaya, Eduardo de la Cruz, Roalia Ceballos, Pahpaki, occasionally some other Tianguistas, etc.

### **Eco-Bang!**

The name Eco-Bang derives from three concepts: Eco (house) relating Economics with Ecology, Bang, relating the “Big Bang” theory, a universe which developed suddenly from a minimum of matter, and also relating by sound the word “Banco” in Spanish, “Bank” in English, and “Banque” in French.

Under this name are membership, instructional, valuation of the TLALOC and TEQUIO currencies and record-keeping forms, cost recovery tasks, etc.

The TLALOC is designed with six denominations: 1/2, 1, 2, 3, 4, and 5, equivalent to one hour of social work and by convention, presently, 30 Mexican pesos, approximately \$10 American. The original equivalent was \$45 pesos, also comparable to \$10 US and demonstrates the devaluation of the Mexican peso, not just the TLALOC.

The reference to an hour of work has the purpose of creating awareness of the essential value of work. By convention, a basic price was adopted, but rather high compared to the ridiculous, cynical official minimum wage of \$5 pesos (50 US cents) per hour. This is not to say that each hour of work must be paid 30 pesos, but if making a recommendation, in some transactions the time of work is considered, which produces a value never below the base price and no more than four times the base, with the object of creating an awareness of the great disparity at the least amongst members. There have been three printings of the TLALOC currency (1996, 1997, 1999/2000). In 1999 the TEQUIOS was also printed, equal to a Mexican peso, to facilitate smaller transactions. Each component of the system-network has received an allowance of 15 and a half TLALOC's and 50 TEQUIOS (That is, added up a potential equivalent of \$515 pesos (a bit more than \$50 US). Based on the number of present members in the system, we can affirm that Eco-Bang has distributed potentially \$58,710 pesos (515x114), without counting those who have received from outside the city (another 25 members presently) and those who have received in the past but who have left completely.

Also, a cheque has been designed, in order to develop central control, crediting an amount of 50 TLALOC's. This modality was suspended in 1999 for the lack of an accountable system of control and the failure of members to report dealings regularly. As a result, it began to supplement the insufficient agility of the TLALOC, but with the problem of fixing a percentage correction in relation to the TLALOC's. In 1999, a personal transaction form with TLALOC's, based on the French LETS model, to create a favourable self-controlling practice to the transactions.

The following is the most-used guide that was distributed to the participants of the network system:

### **“Participate in the Tianguis TLALOC” OBLIGATIONS AND REQUIREMENTS.**

How can I participate in the network system of producers, service providers and consumers, Tianguis TLALOC: for an economy in the hands of the people? Inform yourself about its principals and mission, its critique of the present pseudo-economic globalization. Study its objectives and strategies. This network system has been an initiative of “LA OTRA Bolsa de Valores”.

Make an appointment with the administrator of ECO BANG, request to inspect the exchanges in the network system. “Eco” because of its relationship between economy and ecology, and “Bang” because it expands into a “universe” without being a bank, from initiatives and exchanges based on consciousness, responsibility, information and confidence. Participate in an introductory workshop-course.

Be recommended by a member of the system network and fill out the application form, in which offers and requests are listed, just like you register system data at the bank. Receive an identification number.

The network system consists of individuals as well as social groups which have interest, and those with relationships in the community, work, or other social, cultural, recreational interests, etc., with the purpose of improving the personal economy together.

Get to know the TLALOC and TEQUIO, currencies which support the multiple interests of system members. The TLALOC is equivalent to one hour of social work and by convention in 1999 is equivalent to \$30 pesos as a minimum. The value of an hour of service can appreciate and increase but it is recommended that no more than four times the minimum. The TEQUIO is a unit that serves for small transactions or to complement deals and by convention is equivalent to one peso. These values do not create interest and are not for hoarding, but for circulating the most possible, generating relationships and opportunities for progress between producers, service providers and consumers.

The TLALOC currency achieves a “true value” when two Tianguistas agree to a transaction and both sign. The Tianguista whose TLALOC is accepted, when paying completely or in part for a good or service, signs in the box marked “Spent” and the Tianguista who is accepting the TLALOC in exchange for a good or service signs in the box “Accepted”. At this time, the

currency expresses the transaction and ads value above all to the Tianguis TLALOC community. The Tianguista who spent is now a debtor towards the community and the one accepting the money has become a creditor and the community is in debt toward him.

The Tianguista who accepts the currency can use it in his turn to pay, in his case someone must accept the currency by signing on the back. This way, it can be use several times and successively. The currency has space for ten signatures. Once filled, the currency may be converted for a new one, in each case, a delegate of ECO-BANG will sign in the box "Spent" and the carrier will sign in "Accepted". The signatures of the Tianguistas on the back of the currency are testimonial to its circulation and gives confidence that it is circulating, permitting the calculation of its benefits and the degree of participation.

At the time of enrollment, each new member receives an allowance of 15 and a half TLALOC's and 50 TEQUIOS, which may be spent immediately in the network system. Begin to offer your products and services quickly to obtain notes that are in circulation in the network system. An annual fee must be paid, which consists in 1999 of 3 TLALOC's and 50 pesos and are applied to the unpredictable costs which are made public at the end of the year.

The Tianguista promises to accept as many TLALOC's and TEQUIOS has are being accepted. If you decide to retire you must return your balance to zero. Each Tianguista receives forms for "Recording of Operations and Exchanges" to inform ourselves of consumption and contributions to the community. Photocopy each sheet, when full, or periodically, you must send it to the ECO-BANG office. If your balance is negative, make sure you diversify your offers adapting them to the needs of the system members. If your balance is positive make sure you use more of what the system has to offer.

Attend the assemblies of the system network members and participate in events such as markets, expositions, meetings, visits, tours, etc. A regular market schedule of the second Saturday of every month, which serves to meet in person and demonstrate products and services in a friendly, recreational environment. Each Tianguista receives a nametag to identify themselves at the above events.

Each member of the system announces his offers and requests in the quarterly bulletin "POR UNA ECONOMIA EN MANOS DE LA GENTE" (For an Economy in the Hands of the People", published like the 'yellow pages' of "LA OTRA Bolsa de Valores". For now, more importance is given to the offers, which are not only publicity but educational. The members agree to maintain current records of the data, to detail them, to update them, and to distribute to the bulletin to friends, family and the general public in order to attract more participant to the network system. Get a copy of this bulletin and consult it frequently and establish at least bilateral contacts at any time by telephone and make transactions.

This network system is not-for-profit nor has political or religious aims. It is based on volunteer work and good will. It stakes a participatory democracy based on previous, thought out deeds, a permeable system which generates

value and true well-being. It supports exchange and even bartering and donation as means to build communities.

The system network is not responsible for value, condition or quality of the products or services which are traded. Each transaction must be the result of an agreement between two parties. It is the mutual responsibility of those interested to define the terms of the transaction. The price is determined at that time and it is recommended that everyone accept at least 30% of the transaction in TLALOC's and TEQUIOS. This system can create different ways to capacitate, organize, communicate, that help each other achieve better productivity, quality of goods and services, costs, and marketing, etc.

This system network evolved based on the good experiences of other networks and systems which are active in the world. It maintains a constant revision of how it achieves and obtains the improvements necessary for the participation of its members.

Spread the benefits of the system by augmenting the number of members. Promote similar experiences in other regions, localities or groups. Organize tasks on organization and development to consolidate the system so all its members prosper. A promotional team has formed that meets weekly and is open to all.

The promotional team may ask for an explanation to the Tianguista whose activities may seem contrary to the objectives of the network system. With a proper inquiry, a Tianguista may be suspended temporarily or permanently.

### **Exchange of Goods and Services mediated by the TLALOC and TEQUIO**

In this system network, trades are made in the following manner:

1. Gift. Based on the culture of donation and the levelling of risks, characteristic of indigenous cultures.
2. Moral debt. Delivery of a good or service with the understanding/expectation of a later reciprocal action.
3. Barter. Delivery of a good or service in exchange for another, bilaterally, with a similar value.
4. Exchanges. TLALOC and TEQUIOS notes are used. A price is determined for each transaction, which these notes cover partially or completely.
5. Ordinary Purchase-Sell, using pesos.

These methods can be combined amongst themselves.

The goal of the system is not only for obtaining goods or services, but also to generate friendship, personal relationships, weaving together urban and rural social fabrics, based on the local, the guild and the virtual. Equally, aiming for systems which are larger, more complete and sufficient, in the measurement of what needs precisely to be resolved, such as improved productivity, quality and costs, transportation and business storage, etc. Locally, the Condesa colony group is demonstrating a self-directed dynamic. In the guilds, groups support equally the environment and health. In the virtual, communication and specific

exchanges are some cases, resorting very little by telephone. Follows is what has occurred at frequent markets to create incentive to participate.

In order to predict the degree of participation in the system and the utilization of TLALOC and TEQUIOS, all the members were questioned, the same way as interviews, some by phone and others face to face. Xavier Vizcay and Monica Martinez assumed this task.

One of the conclusions of this study is that the transactions using the notes are few. During the markets, people attending wanted to change a 1/2 TLALOC for TEQUIOS and another instance, changes a 3 TLALOC note for TLALOC's of a lesser denomination plus three TEQUIOS. And other exchanges through the frequent barter are difficult to monitor.

## **Regions**

Solid links have been made between the Capital and the province, between the city and the country, which has resulted in visits, talks, workshops, and training of interested individuals and groups who wish to spend their local or regional Tianguis. Those most interested are from Rio Verde, S.L.P., (where the TLALOC had already been put into practice); CEDESA-FELACC, Dolores Hidalgo, Gto. and EAS, Queratara, Qro. Steps have been made in other locations: CEDUAM, Calpulalpan, Tlax.; RECEPAC, Ixmiquilpan, Hgo.; Owen Cooperatives Centre, Tacambaro, Mich., Cuautla, Mor. Y Tepotzlan, Mor. And there has been interest in the states of Sonora, Oaxaca, Coahuila and Chiapas.

In Quertaro a basic information system of offers from 100 individuals and businesses has already been created. An equal work having already involved as members from the base community of La Parroquia de Nuestra Senora de Sagrada Corazon Popo-Tacaba, in Mexico City and it published in the Tianguis TLALOC bulletin.

## **What is ECO-BANG? What is the Tianguis TLALOC?**

The universe was created with a Big Bang! Today an Eco-Bang is being created, which is restoring the ecology, economy and society, based on EXCHANGES. We are going beyond the complaints of the majority: "I don't have money, I can't get what I need for my family, I can't invest in my business". We are ending unemployment which castigates necessary consumption! We are ending peoples' frustrations who have abilities but do not find a need for their products or services! An economy which establishes healthy social relationships, equitable relationships where the money and the market are truly for the service of the people and the environment must be protected!

## **Children, youth, adults, creating a new society!**

We need to create a culture relating production and equity where the children can participate from an early age. Where people and the environment are respected. Money as it is used now has made enemies amongst ourselves,

searching for the sale and transaction. We are using money which is expensive, creates drugs, is hoarded and obeys concentration formulas which very few know. Civil society is inventing ways to work together and do economic activity - without money! This is done through exchange systems, which are complimentary to the principle but can be alternatives and create better society. Children understand this the fastest. The future is theirs.

### **Producers, Service providers, and consumers network!**

Barter and exchange are practised all the time throughout the world. There are presently 2000 experiences of local, guild and virtual systems which are linking producers and service providers with consumers. Each day a new one is created. They are treated as non-profit, non-partisan social initiatives which are favorably transforming culture, ecology and social fabric.

### **Economy and Ecology united for culture!**

To overcome insecurity, unemployment, depression, impoverishment, civil society organized with its own resources. And invented exchange systems so that no-one is kept outside, everyone has opportunities, each person puts into play his abilities, capacities, vocation, and offers so that others can make use of them. How many businesses and microenterprises are lacking business for lack of information and solidarity! How much installed capacity is lost only due to lack of vision and social co-responsibility!

### **Information, Confidence, and Social Responsibility!**

The lack of money keeps nearly everyone annoyed. It is a shame that affects all generations. Some use dirty money: usury, concentration, speculation, corruption, crime and drug trafficking, doing and un-doing the economy of the country. "What is the meaning of money?" It is a means, not an end, for which people exchange goods, products, services, and knowledge for the benefit of all. It is, essentially, information and commitment (responsibility). We are making systems in which information and confidence permit exchanges.

### **An Economy where the Women Prospers!**

"How much is my love and housework worth?" "Who pays for it?" "How much is the environment worth, who pays the price?" There are thousands of economic factors which simply have no price tag and are invaluable., nevertheless, they are the ones which suffer the most from a monetized money benefitting a few. Civil society is developing systems where the women, society, and the environment may be valued, appreciated, and be useful, with being

subjected to prices imposed by monopolies and an implacatable globalization. Participate in exchange systems.

### **All of those readings include the following:**

Come to the coloured house in Chapultepec Forest Park!  
Turn up sabada (date) - from 10 to 3 o'clock - at the market exposition in the colored house in Chapultepec Forest. You will learn about a social, ecological and cultural system of the Tianguis TLALOC: "for an economy in the hands of the people".

We organize demonstration markets in the capital and states which help housewives, workers, professionals, microenterprises, craftsmen and established businesses to get to know each other. It is an alternative, complementary system. We are all producers, service providers and consumers. An initiative of the civil society.

The coloured house is next to the Moctezuma washrooms, the fountain of Templanza and Auditorium, near the "seargent", architectural tree. Enter by the Flower Market, where there is parking. The nearest metro: Juanacatlan.

### **Tanguista Poll: Data and Opinions**

Data on opinions on the functioning of the Network System of Producers, Service Providers, and Consumers of Tianguis Tlaloc "For an economy in the hands of the people", was conducted for its own purposes.

The poll was in two phases, done between June and August 1999, performed by Xavier Vizcaya, Education Sociologist, and with some collaborating Tianguistas, notably Monic Martinez, graduate of Anthropology.

#### **Phase One: Data**

Twenty eight Tianguistas were interviewed including those who had participated most actively in the markets organized by Tianguis Tlaloc, following an elaborate schedule with the intention of qualifying and comparing as possible, the data obtained. Follows is a presentation of the results:

#### **Guilds most participatory**

They are classified in seven types of guilds (Food; Health; Handicrafts; Art and Culture; Ecology; Training; Various Services). In the area of Food, 9 participating tianguistas were interviewed. In the area of Health, there were 3; in Handicrafts there were 2; in Art and Culture there were 5, 5 in Ecology; 7 in training, and in the Various Services there were 3. That gives a total of 34



Tianguistas some of whom are covered in two guilds (this was the case for 6 of the 28 interviewed).

### **Timing**

In what is referred to as the timing of joining Tianguis Tlaloc, these are the results obtained from the 28 Tianguistas interviewed:

Ten Tianguistas started in 96-1 (first semester), that is to say, when Tianguis Tlaloc started. In 96-2 (second semester) 3 Tianguistas joined; in 97-1 one Tianguista joined; in 97-2 another 2 joined; then in 98-1 5 joined and another 5 in 98-2; finally, in 99-1 2 more joined.

With these data it can be appreciated that one third (10 Tianguistas), of all those interviewed, are the initiators of the Tianguis Tlaloc, that is to say there is a solid base. In the same way, during the period 98-1 and 98-2 another 10 Tianguistas joined, which was followed by more participants.

### **Production and/or Consumption at the Markets**

The participation of these Tianguistas in the markets took place in the following manner: 20 attended as producer or service provider; 20 attended as consumers; 7 participated as organizers. This indicates that the majority attended as much to sell their products and or services as to consume those of others, generating a trade between all of the Tianguistas who attended and participated in the fairs.

### **Transactions and the TLALOC**

As for as the transactions with Tlalocs and Tequios, 24 Tianguistas interviewed traded at the fairs; 7 had used the directory and another 7 exchanged their products or services with the Tianguista friends. It can be appreciated that the majority used only alternative money during the markets and that a quarter used it with friends or through the directory. With respect to the exchanged items, so some examples in the attached section.

### **Consumption of Goods and Services**

The majority of consumption is during the fairs, these being the results: 24 Tianguistas purchased food; 5 acquired health products; handicrafts purchased by 9 Tianguistas; 4 purchased books and publications; 3 purchased ecological products (and biodegradable cleaning products) and in the areas of Training and Various Services not a single exchange was achieved (although it is known that other Tianguistas had effected purchases, for example, microbusiness consultants).

### **Phase Two: Opinions**

## Interview sheet given to the most active Tianguistas

Personal data:

Name \_\_\_\_\_

Product/Service \_\_\_\_\_

Guild \_\_\_\_\_

Start date: 96-1; 96-2; 97-1; 97-2; 98-1; 98-2; 99-1

1. How did you find out about the Tianguis Tlaloc?

Friend ( ) Tianguista ( ) Ad ( ) Other ( )

2. How have you participated in the markets?

- Producer/Service Provider ( )

- Organizer ( )

- Consumer ( )

- Observer ( )

3. When do you use the Tlalocs and Tequios most often?

- Markets ( )

- Directory ( )

- Tianguista friends ( )

4. What kind of products or services do you purchase or contract most at the markets?

- Food ( )

- Health ( )

- Handicrafts ( )

- Art and culture ( )

- Ecology ( )

- Training ( )

- Various services ( )

5. What daily needs would you consider it necessary to include in the Tianguis Tlaloc?

Housing ( )

Clothing ( )

Food ( )

Education ( )

Transportation ( )

Recreation ( )

Health ( )

Services ( )

6. In what Tianguis and market tasks have you been participating in?

- Organization ( )

- Diffusion ( )

- Membership campaigns ( )
- Training courses ( )
- Creating opportunities with the support of authorities and/or business people ( )

7. What suggestions do you have to improve the functioning of the Tianguis Tlaloc and the organization of the markets?

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**List of the 28 Tianguistas interviewed in the first phase of the research on the development of the Tianguis Tlaloc:**

- 1) Acosta Ibarra Emma.
- 2) Arias Manuel
- 3) Cante Cecilia
- 4) Castanos Canedo Carlos.
- 5) Correa Manuel.
- 6) Cova Ofelia.
- 7) De la Cruz Eduardo.
- 8) Ewald Gerardo.
- 9) Gonzalez Fabiola.
- 10) Gonzalez Miguel Angel.
- 11) Hernandez Cano Gabriel.
- 12) Hernandez Linares Marco Antonio.
- 13) Lavallegaspi Cristina.
- 14) Lavallegaspi Lopezllera Luis.
- 15) Lopezllera Mendez Luis.
- 16) Martinez Delgado Teresa.
- 17) Martinez Gonzalez Monica.
- 18) Martinez Ureno Susana.
- 19) Medina Duran Silvia.
- 20) Navarro Barrios Alvaro.
- 21) Ordonez Espinosa Ren,.
- 22) Poliakoff Aldeani Diego.
- 23) Rivera Parez Luz Maria.
- 24) Sanchez Amado.
- 25) Torres Payon Martha.
- 26) Totis Garcia Constantino.
- 27) Vizcaya Xilotl Javier.
- 28) Yowal Amaro Josefina.

In the second phase of the study, the 114 Tianguistas who live in the metropolitan region of Mexico City were interviewed over the telephone, to find

out their opinions around what has resulted from the System Network of the Tianguis Tlaloc and these are the results:

Of the 114 Tianguistas in the directory, only 69 responded; four were on trips and 4 were not living at the address on file. Thirty-five could not be located, but messages were left so that they could communicate with the researchers, noting that the majority did not do this. It stands to note that the majority who joined the Tianguis Tlaloc were invited by Cristina Lavalle, Luis Lopezllera and Alvaro Navarro, and also by Gerardo Ewald and Eduardo De la Cruz, who were the most active in the promotion and diffusion of Tianguis Tlaloc.

It must also be noted that the most active Tianguistas had three types of comments about the functioning of the Tianguis Tlaloc: 1) positive aspects, 2) critiques and 3) suggestions for improving the running of the system. For their part, some Tianguistas who had participated little emphasized the critiques rather than proposing or drawing attention to the positive aspects. Similarly, the Tianguistas that did not participate or who had occasionally done so, limited their comments to phrases such as "It's fine", "I like the idea", "It's something novel", "It fits with my convictions" etc., but did not bring many corrections for future improvements.

### **Positive characteristics of the Tianguis Tlaloc:**

- The method of issuing the Tlaloc is sound. The use of accounts makes it –relatively simple to collect and analyze information about trading volumes and velocity to assess the performance of the system.
- The use of notes expands potential use of the Tlaloc beyond the system of accounts, while increasing the efficiency, simplicity and lowering the cost per transaction.
- Many exchanges of products, services, and knowledge are being generated.
- It emphasizes ecology and respect for the environment.
- It promotes natural foods
- It is a healthier way of life
- It encourages values (confidence, respect, mutual assistance, solidarity).
- The markets are parties, which serve as entertainment
- Personal qualities are revealed
- It is an alternative project
- It gives priority to people, microbusinesses and basic organizations
- It generates barter and exchanges
- The fairs permit community and social relationships
- It supports alternative money and the use of Tlalocs.

### **Criticisms of the Tianguis Tlaloc**

- Tlalocs are not being valued
- Lack of reciprocity and respect between Tianguistas
- Lack of teamwork

- People think the Tianguis is PDP's
- The distances between Tianguistas does not allow for better communication
- It hasn't landed at the local level
- A storefront is needed where goods can be acquired
- Lack of consciousness and conviction
- The work hours make it hard to collaborate better
- There is a lack of information on how to manage the Tlalocs and Tequios
- The directory hasn't worked
- The location of the markets has been poor
- The exchange of products and services is very limited
- Not everyone is helping the organization with the markets, so that the work is only done by a few.
- The markets are wasteful (for some organizers)
- There is a lack of major exchange between Tianguistas
- Few Tlalocs and Tequios have been used
- There is a lack of "pro-consumers"
- There is exhaustion after the markets
- There is a lack of clarity and specificity of all the Tianguis Tlaloc objectives
- Promotion of the markets is lacking.
- The explanations around the use of the Tianguis Tlaloc are complicated.
- The Xochimilco people did not accept Tlalocs

### **Suggestions for Improving the Tlaloc System**

- Create a cooperative or a store where products may be purchased
  - Have the markets in public places
  - That everyone collaborate in the necessary tasks for the markets
  - Cover the inscription costs
  - Notices of the market and the places where they take place should be rotated
  - Do the markets where there are many people already
  - Make a brochure that explains in a simple manner the use of the Tlalocs.
  - That the Wednesday meetings take place after 6 p.m.
  - That Tianguistas exchange their products or services and give increased value to the use of others' products and services, not so much to the money.
- 

### **Opinions of each of the Tianguistas interviewed about the development of the Tianguis Tlaloc.**

#### **1. Emma Acosta Ibarra**

"I learned about the Tianguis Tlaloc through the magazine 'We are Brothers'. These types of exchanges interested me and I'm getting closer to the artisans, microbusinesses and the people who speak about ecology and recycling. It is

the only solution to combat poverty. At the same time, when I made some requests of two or three Tianguistas, they did not go well, they lacked seriousness... the experiences were not successes.”

## **2. Marcela Alvarez Perez Duarte**

“It’s a good option and it is something for which I am fighting. There is a lack of information about what it is, what bartering is, that there are Tlalocs and how they are used, for this reason I propose a brochure explaining in a simple and accessible way be distributed at the markets.”

## **3. “Learning to Live”**

“We have a subscription to “LA OTRA Bolsa de Valores”, and for this we are included in the Tianguis Tlaloc”.

## **4. Efrain Aragon Gomez**

“The Tianguis is...good, but it lacks promotion and distribution of the information.”

## **5. Alvan Aragon Lopez**

“Aside from being with the others at the Tianguis Tlaloc markets, which I liked a lot, the conferences were also very interesting to me.”

## **6. Manuel Arias**

Its a way to keep connected and exchanging products and knowledge with other people. There are various types of exchanges, the delivery of services and alternative money.”

## **7. Joel Bonilla**

“The first time that I heard about Tianguis Tlaloc I identified with it because I had traded painting classes for French classes. It fit well with the lifestyle I was seeking. There is the perspective of creating a healthier world and respecting the environment, based on tremendous values.”

## **8. Arturo Buenrostro**

“For many it is an option. If there is no liquidity [of money], trade is necessary.”

## **9. Alejandro Camacho**

“Its a novel and interesting experiment. The alternative market benefits everyone. However, there is a lack of a larger impulse and the exchanges are limited - more offers of products and services are necessary.”

## **10. Alfredo Camhaji Samra**

“I believe profoundly in exchange mechanisms. However, certain modifications are needed. For example, reinforcing the operation with government support and changing the Tlalocs every six months forever, and taking the internal costs away from all of the Tianguista operations.”

**11. Cecilia Cante**

"The directory is not being used, it needs improvement. I participate because I believe in barter, alternative money and likewise support Luis Lopezllera. In places where markets happen, not much more is sold, they are very hidden, and we don't sell to the others. We need to take Tianguis Tlaloc to the Zocalo [the City Square] and to conventions. Furthermore, trading is very limited."

**12. David Carmona Gonzalez**

"Its a good option for improving work possibilities. Promotion and distribution is lacking for the directory's goods and services."

**13. Atziri Carranza**

"It's a marvelous proposal, I don't know really well how they work, but I like this type of initiative."

**14. Carlos Canstano Canedo**

"I joined to teach about personal activities thanks to Luis Lopezllera. If everyone put their feet on the ground and worked together, something could be done to change the present conditions."

**15. Beatriz Castillo Delgado**

Silvia and Eduardo invited me to participate. Alternative money, working together, and barter got my attention."

**16. Eduardo De la Cruz Gomez**

"It's a tremendous idea, for the world banking system. I like the proposal of alternative currency because it is utopia. It is an alternative market, where the priority is on being human. Until now, the Markets have served as parties and people gatherings. However, a sense of belonging is missing and the group...moreover, think that Tianguis is a PDP project."

**17. Maria Guadalupe Diaz Cruz**

"I met them in the gatherings at the Colored House. Although I am not going to participate with you, the system is very positive."

**18. Veronica Equiliz Valenzuela**

"I almost don't know how the Tianguis Tlaloc works".

**19. Gerardo Ewald**

"I joined because of interest in the Tianguis Tlaloc, to see how an alternative of the economic situation would be. It seemed to me a good idea to barter, the Tlalocs, and camaraderie and the promotion of natural products. I believe that the balance is positive, each time more people are participating, and there could be an option to the economic problems. The distances between Tianguistas and the large scale of it make its' success difficult. It hasn't worked at a local level or created a cooperative or common storeroom. The people are failing in

reciprocity and respect for each other - they are going to make money and don't give importance to bartering.”

**20. Sergio Garcia Garcia**

“The market is something important, but we are still not integrating the use of the Tlaloc into the system.”

**21. Sonia Garcia Mendez**

“At the start we were lacking conviction and being more conscious of the use of the Tlaloc, feeling that paper is valueless, so we opted for barter. Like everyone we need income to cover our costs, and for this we need to help with the meetings or at all the markets and their preparations.... the Tianguis Tlaloc does not feel like the alternative for improving our income.”

**22. Yolanda Garcia Mier**

“I’m interested for the NGO’s. It lacks promotion, the idea is good but it is still immature. It’s taken as a complimentary system, not the only one. It needs more work so that the Tlalocs function.”

**23. Christian Geradon**

“Like Luis Lopezllera, we think in bioregional alternatives, in which barter and social relationships should predominate and not the global market. I think that the directory hasn’t worked, that it is better to do the markets in public places and this initiative would achieve growth.”

**24. Miguel Angel Gonzalez**

“I like the exchange project, bartering, and teamwork. It’s a project that in a short time has created hope and grown more. There are almost no services at the markets, the use of the directory is lacking, and the costs of registration should be covered.”

**25. Jose Gutierrez de Velasco**

“I am convinced in the necessities of base organizations. I live not by beliefs but by constant actions.”

**26. Eduardo Gutierrez Popoca**

“I’m interested greatly in exchange and support Tianguis, but we are few who use the Tlalocs.”

**27. Angela Hernandez Cervantes**

“As I’m having an National Forum on Ecology it seemed to me to be a good alternative, above all in the area of food. I believe that we ought to hold other activities aside from the Tianguis, it is difficult to be more participatory in all its activities.”

**28. Marco Antonio Hernandez Linares**



It's an exchange of ideas, culture and products. For this reason, by my own conviction I joined the Tianguis Tlaloc."

### **29. Gabriel Hernandez**

"It is a rather good initiative, everyone ought to trade without using national money as an intermediary. A greater variety of goods and services are needed so that we don't need to purchase outside of Tianguis Tlaloc, soon we will have basic products in an accessible manner. It is important that people integrate themselves, if not at the sales in the markets, then in activities which improve the functioning of the Tianguis Tlaloc".

### **30. Laura Hernandez**

"As a subscriber to 'LA OTRA Bolsa de Valores' I entered Tianguis. The proposal is interesting and the group is visionary. It astounds me that presently there is an economic crack and nothing is being done. We can, without waiting for something from the government, do much through community organizations".

### **31. Nina Igual Blanca**

"When one sees that the path society is on it is so vindicating that another alternative can be found, like the Tianguis Tlaloc, which generates a confident non-lucrative environment. Not all Tianguistas are utilizing the Tlalocs."

### **32. Francisca Lara**

"It is a good alternative and promotes a better solidarity".

### **33. Christina Lavalle Legaspi**

"I consider the Tianguis as the Good Fairy's alternative. I like the markets because I have a lot of fun, but the products there don't satisfy all my needs. Almost no one has used the directory. Furthermore, the people simply display what they work on most."

### **34. Humberto Lopez Baz**

"Invited by Cristina I joined Tianguis. Although I have no Tlalocs, I think Tianguis is good."

### **35. Cristina Guadalupe Lopez**

"The goals of Tianguis Tlaloc and the base communities are similar. We have been trying for two and half years working in its' commercialization. The directory lacks more products that are being offered."

### **36. Luis Lopezllera Mendez**

"The Tianguis Tlaloc serves the goals of separating dependency from indebted money, re-valuing personal qualities which have been marginalized by the work market and contributing to the change of local markets. I think that the directory lacks flexibility, better publishing, and a more rigorous editing. Also the distribution is inadequate. A friendly, cultural, intimate and festive atmosphere is

created at the markets, where the Tlaloc can permeate gradually. Nevertheless, the markets are wasteful and require a lot of organizational, planning, coordinating work, etc. that only a few do. I am conscious that this process has been very slow, perhaps due to economic limitations. We are reinventing the economy and we are amongst the pioneers. If the public and private sectors promoted it, it would have better potential; but alternative money is not all of the solution, other elements are necessary to diminish the new economic system.”

**37. Luis Lopezllera Lavalle**

“I like supporting a project that makes social and economic change. It’s an alternative project that only needs to get the word out.”

**38. Ampara Martinez Noriega**

“The possibility of obtaining others’ products without using money interested me, given that in our country we believe in the present system.”

**39. Eduardo Martinez Sanchez**

“I liked the market and the economy that they shouted at us. We need exchanges.”

**40. Susan Martinez Ureno**

“Although I don’t understand well how the Tlaloc works, money has been difficult for me to manage. The markets help me to meet and work with other people.”

**41. Isabel Martinez Valdez**

“It is adequate for exchanging products, but although the products are of good quality, the markets are more expensive than in other places. Few of us have used the directory, but what is difficult is managing the Tlalocs.”

**42. Alejandro Medina Duran**

“I joined the Tianguis Tlaloc because I was looking to do something in which I can work, and with the option of alternative money.”

**43. Silvia Medina Duran**

“It gives me an opportunity to exchange products and publicize my work. Nevertheless, there has been no demand for my puppets.”

**44. Sandra Majia de la Hoz**

“An exchange of products and the management of alternative currency seemed like a good idea to me.”

**45. Ernestina Miguel Cenobio**

“I have no idea with what, nor how I can participate in Tianguis. I met with Lic. Elda Ramirez in the Miguel Hidalgo Delegation and joined.”

**46. Martha Monicelli**

“It seems to me to be a new form that builds awareness of our products. We are recovering our roots in some way.”

**47. Maria Rosa Murga**

“It is magnificent that the Tianguis Tlaloc exists. I would like to say that in the June market in the Colored House no one accepted my Tlalocs.”

**48. Alvaro Navarro Barrios**

“The Tianguis Tlaloc has increased in people as much as in enthusiasm. However, the growth is little and also in the use of the Tlalocs, although the incorporation of the Tequis will improve this. It would be good if all we all accepted Tlalocs for the costs of our products. I think that people are not conscious that we need to generate an identity... Tlalocs are not being given their value.”

**49. Ignacio Peon Escalante**

“The Tianguis interests me because of its multi-versatility. It is important to include the disabled. Better continuity, stability and frequency are lacking and we need more prosumers (producer-consumers).”

**50. Hector Peralta**

“Exchange of goods and services seemed like a good alternative for those who do not have adequate channels to promote at a commercial level. From the start of the project it was a good solution to the problematic economy. The Tianguis has progressed, like the future... there is great enthusiasm and those that will join will integrate better.”

**51. Diego Poliakoff Aldeani**

“It is an alternative way to manage money, barter and the environment. The Tianguis has been consolidated, but I see there is waste, lack of continuity, it demonstrates exhaustion and lack of direction. A major work team is lacking, the people are dispersed, and expectations were created which haven't been met. It would be good to help the people in the province and rotate the locations of the markets.”

**52. Jovita Prado Villafana**

“It is an alternative because products do not sit. The key would be to have the markets where there are much more people and to give it more promotion. Support lacks for the Tianguistas who exchange their products who give more weight to the currency and use of them.”

**53. Andres Reyes Garcia**

“By Jovita's invitation we joined Tianguis and they gave us Tlalocs, but we could not attend the markets.”

**54. Maria Eugenia Reyes**

"I decided to participate in the Tianguis Tlaloc to publicize the courses we give in our organization."

**55. Maria del Carmen Reyes Rodriguez**

"The Tianguis is a good idea and it gives opportunities to know each other."

**56. Carolina Romera Cifuentes**

"I don't know how it works. I think that the strengths are the markets and the directory."

**57. Diana Romeu Adalid**

"I met them at the Miguel Hidalgo Delegation meetings and so I joined."

**58. Amado Sanchez**

"There are different levels of exchanges: products, knowledge, personal. The objectives need to be clarified and we need to reflect amongst ourselves where we want to go and not attending for the sake of attending markets, we deserve better. We have limited ourselves to exchanges at the markets and few have used the Tlalocs, given work hours, distances, etc.; I suggest that Wednesday meetings be after 6 o'clock."

**59. Krystal Sanchez Navarro**

"The Tianguis is important because there are more people who don't have possibilities. It's hard for us to get involved because they happen Saturdays and nobody works in our organization."

**60. Hector Soriano**

"I like to contribute to creating fountains of jobs but not using the Tlalocs. Someone told me how it works but I consider it too much 'development' and theory, I prefer to know how it serves me in a concrete and practical form."

**61. Jaime Soriano**

"It is a good idea but I hardly participated in the markets".

**62. Maria Antonieta Tejeda**

"The Tianguis Tlaloc proposal wishes to be so innovative that it appears marginal and has little credibility. Not one opportunity to create your own economy is seen... I work with very marginal people, who don't have status, and there is no possibility of taking them to the markets. I am interested in promoting myself with the SEP, in the delegations, in the states, and at high profile events. It has closed itself off in a world of ideas and volunteerism without concrete ideas."

**63. Martha Torres Payan**

"El Tianguis Tlaloc is a good, alternative barter organization, where community is also supported."

**64. Constantino Totis Garcia**

“It is a good alternative for increasing earnings. It’s not well known and it needs a shop where products can be purchased on a daily basis.”

**65. Maria Irene Valdes Miranda**

“In my lifestyle, I can never find exactly what I am looking for. The product offers are few, it would be better if Tianguis was local and that members were better connected.”

**66. Miguel Valencia**

“I know Luis Lopezllera and as an ecologist I promote the same, the idea of local markets, that is a two year dream. It is important to explain why a Tianguis like this one is necessary and that each community has its own, in order to get established with the support of its’ neighbors.”

**67. Sabino Vega Vargas**

“It’s an adequate method of trading, but better organization of the festivals is needed.”

**68. Maria Xilonen**

“I’m in business so it is very hard to maintain the same products. More than economic, it is a lifestyle, in which values are what matter, that are needed to be recuperated, because we are human beings. This spirit of establishing communion with the earth and with others through community...only by doing things through action transforms oneself and one’s environment.”

**69. Josefina Yowaltepeyolotzin Amaro**

“It’s part of our ancestors’ customs to barter and help each other. The participants of Tianguis need to involve themselves in the marketing and organization, this way informing people about traditional medicinal products.”

**Relationship of the Monthly Markets with Trading**

The Tianguis Tlaloc initiated another step of the development of the monthly Markets for trading products and services in August 1998. From then until now, August 1999, there have been 10 markets carried out, with the participation of the most active Tianguistas.

The first and second markets took place at the National Writers’ Association, located in the locked Pyramid at the corner of 24th Street, District of San Pedro de los Pinos. The third market took place at the Integrated Education Center (CIE), located at 214 Moneda Street, Diez de Abril District. The fourth market took place in the house of one of the Tianguistas, Mrs. Emma Acosta Ibarra, at 74 Rincon del Convento, South Forest Residential District. The following markets, three in total, took place also in the CIE.

The eighth market took place in the Colored House at Chapultepec Forest [park] with the support of the Miguel Hidalgo Delegation. After, a market was held at the Center for Agro-enterprise Development Society (CEDESA), at kilometer 1 of the Llanito Highway, in Dolores Hidalgo, Guanajuato; in collaboration with the Latin-American network for Community Commerce, RELACC-Mexico and the Apiculture Association of Guanajuato North. The most recent market occurred recently at the Colored House in Chapultepec Park. Follows is the calendar of market days for Tianguis Tlaloc and the participation of Tianguistas at the fairs:

Calendar of dates.

1. August 15, 1998
2. October 10, 1998
3. November 14, 1998
4. December 5, 1998
- 5) February 13, 1999
- 6) March 13, 1999
- 7) May 8, 1999
- 8) July 12, 1999
- 9) July 9, 1999
- 10) August 14, 1999

### **Difficulties with the Tianguis TLALOC**

Lack of financial support for the promotion of this experiment. PDP alone contributed with a “float” and dedicated some staff time as did LA OTRA Bolsa de Valores with the bulletin.

Unstable volunteerism put the work on a few volunteers dedicating sporadic time. It is worth noting that various types of volunteering are perceived: some collaborate rarely, occasionally or cyclically, and others collaborate permanently, based on self-discipline, which predominates over the availability of resources, setting apart those who help in a para-institutional way, like lifestyle, or other altruistic form, as a complement to other normal activities.

Lack of follow-through and animation of the experience, for lack of one or more permanent, sufficiently remunerated professionals (provided with a means of transportation: a motorcycle). It is thought, but not intended, to establish a charge on the TLALOC's and TEQUIOS for these purposes. It results in those who are donating time to support the Tianguis are those who would have less opportunity to obtain earnings in TLALOCs an TEQUIOS.

Surprise and doubt by many common people but also by the enlightened. It has been a significant liberation gesture, that it is engendering a community-minded system network of vital trades through a symbol of our own worth.

The public, private, and non-profit development agencies bring decades of trying to activate the communities with foundations and subsidized funding, by co-investment, credit, and attributing official money as the primary factor. The numerous failures did not result in opening their eyes toward new symbols of

value. It appears that there is a drug-like addiction for money, that has certainly indebted (drugged) and produced generations of experts to obtain, manage and to live with it. With diverse discussions about development and attitudes which are often omnipotent, but believing it - aside from the usual entourage of gold-diggers - a mental block towards thinking of ourselves as useful people in a new value system. The invitations by Tianguis TLALOC were encountered with silence at these levels.

To establish a reliable system of offers (and requests) required a large investment of time to overcome obstacles. Errors in addresses and telephone numbers are constant, it appears that people move frequently but this is not reported in a timely way, which implies waste in postal correspondence and also discredits the system when a potential purchaser is disappointed when the announced producer/service provider cannot be found. In other cases, people who make commitments are not known but treated like family, then deny when asked or forget to pass on messages. On the other hand, there is no custom for publicizing, of conveniently and attractively offering, with precise dates, prices, and conditions, because putting together a bulletin and distributing it requires much more work than commercially normal. The database was used at the start and followed the format of LA OTRA Bolsa de Valores and it later complicated the flexibility and clarity of information (for example, the key and the membership number). The computer equipment used was very old and nearly obsolete for working with the information. All this labor, done without a technical consultant in marketing and publicity, resulted in a collective, self-teaching process.

The periodical bulletin was not considered so good so a small package was created that defined the goals and methods of the Tianguis TLALOC network-system. It fails to include a graphic manual explaining the values. The Bulletin fills some of these functions but is not sufficient. There are schemes to include a comic strip but this has remained on the drawing board.

The size of Mexico City, with almost 20 million people and the wasted energies in transportation, presents such a high degree of difficulty for face to face encounters, that already a group, "LA OTRA Bolsa de Valores", left to reach the city, country, and international community.

There is resistance among the members concerning the strict accounting of credit and debit balances, with the members preferring to focus more on giving than receiving than the actual recording of it.

Case experiences of alternative money in the Third World. The LETS (in the Saxon countries) and SEL (in the Francophone ones) utilizes electronic means to maintain records, including Canada which is already trying smart cards, which support the auto-control of the transactions. The network, inspired by Ithaca, N.Y., utilizes bills printed by a social center, which results in an alternative bank which gives credit to its members. The multiplicity of non-political social organizations brings a relative consistency to individuals and organizations in the Northern countries, to which minimum economic rights have been given - although now the situation is fragile and may disappear - that the most unfortunate classes have historically obtained that is State-provided (welfare

state, state assistance). But in Mexico, as in many Southern countries, these conditions do not exist.

Family or friendship circles are relatively reduced, and even closed, based on vicinity, work, or vocations. The prevalent insecurity, economic or against criminal violence, is making the creation of a confident community difficult. The many manipulative practices of the meeting notices of “The Social”, completed with the use of powerful tools, in either a direct or subtle way, generated skepticism of new initiatives (“What is their hidden agenda?”), that is difficult to overcome. Politics for a better quality of life are encountering a great obstacle in the overcrowding and atomization inherited from the past, while subjugating the great, gregarious and hospitable spirit of our town that is found in rural areas and poor urban neighborhoods.

Social and ecological responsibility are being diluted. Simple but eloquent symptoms: At the Tianguis TLALOC markets, it turned out that few people would spontaneously stay to the end to collect the tables, chairs, posters, trash, etc. It has been proposed, for environmental reasons, not to use disposable glasses or articles at the markets, but the has not happened.

Money refers to units that are supposed to facilitate transactions and make prices better. The “price”, determined by a global market, resulted in a question on how to resolve justice. These prices are determined by large corporations with a great capitalist strength. Before that, the international “fair trade” movement was achieving prices and mechanisms which allowed the primary producer solidarity for his community, environmental respect, and better earnings. Many prices do not take into account labor, cultural, and environmental values, sometimes ‘invisible’ or simply ignored, necessary in the production of goods, or, conversely, over-value the production and impose through quasi-monopolistic values, favoritism, exclusivity, and excessively luxurious bonuses. In order to even out the price bias, the Tianguis TLALOC created a practice of appreciation, wherein the subjective estimation of the purchaser aspires to compensate for the limitations of such “prices” and to put priority on the relationship established, or to be established, ahead of the transaction itself.

The practice of the TLALOC and the TEQUIO is still in its inception, although it is progressing slowly. A dual currency was chosen for the TLALOC, first the “base hour of social work”, with the goal of identifying a healthy money with work time, and then the conventional value of this work in pesos, 25 (and later 30, conforming with the devalued peso). There was so much demand for a 1/2 Tlaloc (15 pesos today), that smaller deals were difficult and for larger transactions, the 30 peso model did not become very practical. Also the job of the TEQUIO, equivalent to one peso, got underway and facilitated deal-making.

The endorsement on the back of the bills is being practiced, although not a single bill, which has circulated ten times, has been returned to ECO-BANG for a new one.

Although the self-administered transaction forms have been promoted, there is no evidence that it is sufficiently used. Deals continue to be of minimal value and many people don’t give them importance and do not fill them out.



Macro-economic or environmental conditions did not strengthen the progress of many micro-enterprises that joined the Tianguis but they later failed and became bankrupt for reasons not attributable to the use of the TLALOC and TEQUIO. One memorable case was the quail egg producer that was very popular amongst the Tianguistas but whose 300 quails suddenly died due to disease.

Fear for some participants, because Tianguistas who had committed (spend their TLALOCs) and did not redeem their debt, due to a prolonged or definitive absence, bankruptcy, sickness, etc., has not been reasonable, given that the possible amount of commitment is very low. This latter reason is perhaps a difficulty which has not permitted a better uptake of the Tianguis.

Some rumors fearing the fiscal intervention of the Ministry of Housing have been heard. But the spirit of this Tianguis is not to avoid taxes, but to generate a method of creating cohesion and self-sufficiency for the community and reducing poverty, which should be esteemed by the entire government. It is known that in Belgium, these experiences have a five year “amnesty” to consolidate and later to find equivalent ways to fiscal material. For now, the experience is “a drop in the ocean”, but could bring about the benefit of a current of respect.

Regarding the progressive but slow enrollment of new Tianguistas it is noted that the organization of the markets (six in one year) has consumed a lot of energy the could also have been applied to the daily development of the trading system. In this sense, the markets tried to be extraordinary occasions to interest more people. And what the experiment showed was that many people were invited attended in an occasional or intermittent way but not in a more committed form. One reason for this is that they are supportive of the idea, they like the initiative as it is but do not wish to become a part of it. Other reasons could be: They don't need the Tianguis TLALOC to satisfy their vital needs; they see the Tianguis TLALOC as an initiative of PDP, in which they have not invested (not withstanding that the process is open and participatory); they are going for friendship or to support some member of Tianguis but have no real interest; and perhaps the most important, they see that they cannot find the products they need.

### **Next Steps: The Pochteca Plan**

Utilizing the micro-region of Xochimilco, bordering Mexico City, as a pilot and based on the Tianguis TLALOC experience, the plan that may be adopted in Xochimilco or other similar micro-regions (that combine urban and rural areas) has been proposed. See the document “Pochteca Plan” in “LA OTRA Bolsa de Valores” #47, attached to the Appendix of this report.

## **Conclusion of the Tianguis Tlaloc Study: Reflections and Final Recommendations**

It is important to set this experience in the context of a country which has suffered a large financial economic crisis, the collapse of the banking system and the predominance of a government regime that lasted several decades simulating democracy and controlling and devaluing social organizations. Corruption and crime have grown notably and violence and Human Rights violations champion everywhere. The nearly absolute leaders at different levels have contributed to creating a pyramidal system which has combined cynicism with submission but today is inefficient to the point of near collapse.

Presently the technocracy formed in the United States has integrated the economy of the country with transnational forces and world speculators. This has resulted in a dual reality, where extreme poverty affects more than 40 % of the population and, more seriously, the traditional solidarity culture is being diluted through market individualism, while the opulent minority links with the globalization trend.

The proposal of an alternative currency with the creation of social markets unveils surprise, interest, and hope but at the same time there needs to be a fight against non-productive illness, inconsistency, and lack of confidence, all effects of the unfavorable context mentioned above. The models that have been experimented with in highly industrialized countries are informative and inspiring but cannot be replicated. The different cultural, economic, and political characteristics, etc. are very large.

The principle contrasts:

- Integrated industrialized society versus a conquered, dependent, and constricted society.
- Poverty of the minority versus poverty of the majority.
- Predominance of the value of individual competence versus specific traditional forms of productivity.
- A materialistic society versus a spiritual society.

The South is intending to generate models in various regions. In Mexico's case the Tianguis TLALOC campaign was guided by the following sectors:

NGO's and development organizations.

Philanthropists.

Development Agencies.

Religious organizations.

Individuals desiring to progress (common people and middle class).

Micro-enterprises.

Established businesses.

We have learned that there are many people in the 'development' sector interested in the experience for ideological, philanthropic, and political reasons, but resulting in fewer augmenting their more or less institutional income (academic, NGO, public sector, etc.). They did not participate or hardly participated in the dynamics of Tianguis.

The people who participated the most correspond to the marginalized rural or urban sector, for whom it is truly necessary, or even middle class offering services at a personal level, and fortunately also the business sector. Already there are emerging micro-enterprises (agro-ecologic ones) or established businesses.

The principal virtue of the Tianguis has been to erase the concept of money as the essence of money, not only in academic terms but also in a social and operational form, and capturing the interest of many sectors. It is to explore the possibilities of a more humane economy between the population with scarce resources and deterioration of the middle classes, establishing more horizontal and equitable relationships where the value symbols correspond more to the integral reality of the people.

This resulted in a major challenge, faced with large speculative currents and the market amply dominated by powerful corporations. And at the same time, an urgent need.

### **We recommend:**

After four years of experience (1996-1999) the Tianguis TLALOC network system believes the following principles will have better impact for a future:

Count on a budget for a new stage in the year 2000. Contract permanent staff to be paid part in official currency and part in alternative currency.

Combine a support system with organic participants from the four sectors: social, public, private and international. Suitable people, leaders in their sector, should provide the necessary synergism.

Give relevance to local guild work combined with teaching how to overcome isolation and poorly designed ambitious mega-projects.

Combine the role of children, youth, adults and the like, to generate a truly sustainable process.

Develop a general system which supports the recognition in Mexico of the various geographic, ethnic, and functional identities, etc., similarly its own identities may be practiced while at the same time combining with a generic one.

Aim for a meso-economy which not only works with clean money but also to create infrastructures and services of this intermediate nature (transportation, food, marketing, distribution, bonds, etc.) in order to recreate a truly integrated and sustainable organic.

The Toronto Dollar experience is an innovation that combines governmentally authorities with the business sector and civil society, creating a fund in dollars that supports the community fund, which can be exchanged in case of necessity, covering a cost that will finance assistance and promotional works of the civil society. The Pochteca Plan incorporates this principle.

Connect with regional, national, continental, and international experiences. For this Stephen DeMeulenaere, Thomas H. Greco and the network that supported this study can help a lot.

## **Part IV: Implementing Parallel Currency Systems in the Majority World**

In this section, we will look at the factors underlying a successful launch of a local or community currency system. For a system to be successful, an analysis of the local area must be conducted to assess the specific aspects of the locality to determine whether or not to start such a system in this locality to deal with a particular or series of problems, and to determine which type of system would best serve the people living in that locality.

In spite of their impressive growth during the past years, Community Currency Systems have received very little attention from mainstream economists, from researchers, and from major media outlets. The first scientific magazine focused entirely on community currencies issued its first edition in 1997 in Australia, called the International Journal of Community Currency Research. Since most of the research that has been conducted on these systems is done on systems in developed countries, the identified factors for success will have to be re-examined and compared with the conditions in developing countries, as a subject for future research.

### **Analyzing the local area and identifying key factors**

Analysis of a prospective locality must be conducted from the outside, as well as from the inside. Of course, it is essential that there be a group of people willing to organize and operate such a system. In addition, factors relating more to the appropriate design for a particular locality must be assessed. Some of these factors are presented in the following.

#### **A Sense of Purpose, A Reason for Being: The Wedge**

Many local currency developers agree that having a sense of purpose provides a strong motivation for a project to succeed. This reason for being, or "wedge", provides a way, a strategy, for starting a system by tying in with some other popular effort. This effort should be a common goal, like a community centre, a school, a warehouse, a factory, or a social project like a lending circle, environmental cleanup, collective planting or harvesting, and the like. Understanding the life-styles of the people in the locality is essential to determining what the wedge in a particular locality could be.<sup>69</sup>

One suggestion is the opening of a used-good store. Items could be purchased from system members in the local currency, perhaps in combination with a small cash component. The goods are then retailed for cash to non-members of the system, generating operating funds, and returning as dividends to those who sold their goods to the store.

#### **A Sense of Community**

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<sup>69</sup>Jeff Powell and Menno Salverda. [A Snapshot of Community Currencies in North America](http://ccdev.lets.net/snapshot.html). 1998. Internet: <http://ccdev.lets.net/snapshot.html>

Community can be defined as an ongoing collection of interactions and continuing relationships between people in a defined geographic area, or within a defined social or ethnic group. In a well integrated community, people are close, not alienated, which means there are few difficulties with communicating one's needs, and thus few barriers to trade. Not every geographic unit (neighbourhood, village, city etc.) is automatically a community. Although it is impossible to generalize in this respect, two important factors seem to be positively correlated with the degree of community sense:

1. stability of the population composition: a highly mobile population, as a result of seasonal or permanent migration, is less likely to engage in continuous interactions;
2. dispersion of the population: in communities with a geographically dispersed population, contacts are less regular.

Research in Australia confirms that the social and/or economic impact of local economic systems depends on their geographical location<sup>70</sup>. Systems operating in smaller neighbourhood areas of towns and cities have higher trading levels than spread over a large area, such as in an urban context (eg. the Tlaloc in Mexico-city) or more rural systems which may already have existing mutual reciprocity/mutual aid networks.

In larger cities one can observe the concentration of trading in a number of smaller geographic areas with little outside trade. The reason being that much of the trade is in goods and services is most conveniently accessed close to home.

It would be wrong to start by assuming that a local or community currency system is not a good idea for areas that suffer from a low degree of community sense. To the contrary: the introduction of such a system can make an important contribution towards more and better communication within the community, which is a benefit in itself.

The most adequate type of local currency system to introduce may be determined by this degree of community sense. In an impersonal environment, in which people are more alienated from each other, the introduction of a currency based on the promise of each member to deliver as much goods and services as he or she consumes may have difficulties gaining wide acceptance, in which defaulting on the system (as is the case in Ecuador) provides a self-fulfilling prophecy of failure. In this case a backed local currency may be a better alternative to build the trust that would make a community currency easier to accept. A funded local currency is backed by assets that are readily accepted, such as goods from a warehouse or enterprise.

The lack of community sense may be an important factor in the limited development of such systems in the North. Even if all conditions for a successful trade are present (the demand, the offer, the money and the time), people are often too timid or distrustful to contact each other. Or, as research has

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<sup>70</sup>Colin C. Williams. Local Exchange Trading Systems (LETS) in Australia: A New Tool for Community Development? International Journal of Community Currency Research. 1997. Volume 1. <http://www.bendigo.latrobe.edu.au/arts/ijccr/volume1/1toc.htm>

suggested<sup>71</sup>, people's basic needs are met within the regular economy, and participation in community currency systems is more for ideological reasons. In places where communal bonds have remained strong (ethnic, religious networks etc.) - this problem may be of minor importance, although in urban areas with a relatively mobile population these bonds may have lost much of their strength.

Starting such a system would necessitate additional social work to break down the barriers of shyness and alienation that keep people apart.

### **Availability of Time**

Research on these systems in the North suggests that most trading takes place on weekends and evenings, with the unemployed and housewives trading during the day. This may be the same in the south, with many people working long hours to earn the money they need. However, for the marginally employed, and for those employed at low wages, the introduction of a community currency (with its potential trade creation benefits) can raise wages and generate more economic activity.

As most trade takes place between individuals, one can assume that it will take more time to complete trades, factoring in transportation and etc., than if one was located at a particular site. This may change as the system grows in size and importance, but initially one may assume that in this respect, prospects for growth in Asia, Africa and Latin America may be better than in the North.

### **The Need to Trade**

If the conventional economy already provides full employment and a high standard of living, then there may not be a need for people to participate in parallel currency systems. The theory argues that due to a deliberate scarcity of money, there is an almost permanent need for at least the existence of a parallel currency system to fill this gap between existing monetary resources and actual needed monetary resources. In times of economic downturn, research shows that these systems boom, displaying a counter-cyclical tendency. As people's need to trade increases, so does participation in the parallel system.

It is clear, then, that a great need to trade, to acquire basic needs exists in Asia, Africa and Latin America, as well as in the North. This hints at a misallocation of resources, a maldistribution of wealth that leaves a majority of the world's population with unmet basic needs, while the human and renewable natural resources with which to meet these needs are in sufficient supply. Again we may suggest that the prevailing situation in these continents suggest there to be fertile ground for the introduction of parallel currency systems to these places.

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<sup>71</sup>Even Gran. Green Domination in Norwegian LETS Systems: Catalyst for Growth or Constraint on Development? International Journal of Community Currency Research. 1998. Volume 2. <http://www.bendigo.latrobe.edu.au/arts/ijccr/volume2/2toc.html>

## Diversity of Available Goods and Services

If many people offer the same services, and if the products of the region are severely limited by climate and the existing market situation (such as mono-crop regions) then the possibilities for trade are significantly reduced, creating dependence by one locality or whole country on others. At the local level, the diversity of goods and services available also depends upon the general level of education, and the vocation or primary skills of the people.

As with the Toctiuco SINTRAL system in which the range of goods and services offered is very small, efforts must be made to encourage trade creation through skills development and capacity building. This requires a detailed social survey to assess these needs.

This does not mean that areas with limited goods or services to offer are not good candidates for a parallel currency system. On the contrary, the availability of essential goods such as agricultural produce is important in reaching "critical mass", the point at which the range of goods and services attracts people for that reason, without having to engage in extensive promotional efforts<sup>72</sup>. Since labour is a significant component of almost all agricultural production, significant potential exists by using parallel currencies to integrate rural and urban economies and improve distribution methods.

## Involvement of Local Business

The lack of business participation is noted as one of the most significant shortcomings of most LETS systems in the North. The acceptance of the parallel currency by business is seen as almost essential to the good functioning of the system, and is certainly a sign of a well-integrated parallel currency. HOURS systems have less of a problem integrating businesses, perhaps because of the use of printed money which simplifies things at the point of sale immensely. However the Tlaloc system pointing a way forward to integrating businesses into a Mutual Credit system.

In the first section of this report, a number of advantages were listed as reasons for businesses to become involved in a local parallel currency system. Some more advantages are obvious:

1. A wider range of products is made available.
2. Participation by businesses increases legitimacy of the parallel currency.
3. Attracts increased business and encourages broader participation.
4. Increases opportunities for trade creation and substitution.
5. Increased possibility of inter-business trade.

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<sup>72</sup>Jeff Powell and Menno Salverda. [Snapshot of Community Currency in North America](http://ccdev.lets.net/snapshot.html). <http://ccdev.lets.net/snapshot.html>



## Existing Local Capacity to Manage a Parallel Currency System

Ideally, parallel systems should be started with minimal outside involvement. When considering the introduction of a currency, it is essential to have the trust and participation by grassroots civil organizations, and most importantly, one willing to carry out the administration of the system. As has been suggested about the Toctiuco SINTRAL, administration of the system from 'outside' has led to a lack of personal responsibility in the system, whereas projects that actively involve exiting grassroots resources are showing greater successes.

What is needed is a group of people with the potential to introduce, educate, lead, organize, control and assure the continuity of the system<sup>73</sup>.

## Availability of Technology

The type of system used may be determined by the availability of technology, although it may be argued that there are ways around lacks in technology. In the North, most parallel currency systems are managed with the aid of computers, fax machines, photocopiers and telephones, items which require skills as well as a stable supply of electricity.

However, in the majority world context, these items may be very costly, or impossible to acquire in the context of a developing country. It is possible to implement a mutual credit parallel currency at very low cost without requiring any technology, only paper. A manual for doing this is presented at <http://ccdev.lets.net/materials.html>.

## Designing a Parallel Currency System

Thus far in this paper, we have described the three main types of parallel currency system, a fiat system, a system of backed currency, and a mutual credit system. We have looked at one such system in detail, and suggest it as an example of simple, cost-effective and advanced design. And, we have presented the underlying factors to analyze and consider in deciding which type of system to implement.

Now, let us look at some more practical matters relating to designing a parallel currency system, such as:

- The type and physical appearance of the parallel currency
- Methods for disseminating information about Offers & Requests
- Managing the system and the money supply
- Entrance and user fees
- The unit value

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<sup>73</sup>Jurgen Schuldt. Dineros Alternativos para el Desarrollo Local. Lima: Universidad Del Pacifico. 1997. P.262

## **The Type and Physical Appearance of the Parallel Currency**

After a study of the local area has been conducted, it should be clear as to what type or types of system to introduce. Depending on the method of issuance used and the type of currency that is issued (units of time, commodity or national currency equivalent) the form the currency takes is the next practical consideration.

Space must be left on the bill for negative interest squares, for endorsement boxes and for any other design elements that have been introduced into the currency, as we will see in the following samples.

Alternatively, cheque books may be used which reduce the cost of producing notes significantly, but may meet with problems in areas with high written illiteracy. Others may be wary of the idea of every transaction being recorded. Or, a simple score sheet can be given to every member, with 100 squares on each side, with one side measuring the units spent and the other side the units earned. When a transaction takes place, the value in units is crossed out on the "units spent" side of the buyer's card, and the "units earned" side of the seller's card, with the name of the opposite party to the transaction in the spaces. When the sheet is full, it is taken into the administration for recording. This would prevent people from spending more than they have on the sheet, and is also simple for levying fees<sup>74</sup>.

The appearance of the currency may have a large role to play in legitimizing its acceptance by the public in localities where the citizens are not so used to a variety of methods of engaging in transactions. However early versions of HOURS currencies have been significantly improved, using advanced printing techniques and top-quality local artistic designs, which shows that looks are important.

## **Methods for Disseminating Information about Offers & Requests**

Depending on available technology, there are a variety of options for informing the users of a system of what goods and services are being offered and requested at a given point in time.

In North America and Europe, this catalogue takes the form of a newsletter, newspaper, or Internet bulletin board. The first section is devoted to Offers, listed by subject heading, followed by Requests.

In countries without these capacities, there are some very simple and cost-effective methods for disseminating this information, including a centrally-located chalk or bulletin board where members can check and update listings themselves. Or, as in Ecuador, offers and requests can be disseminated by word of mouth, although this may turn out to be unreliable and inefficient.

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<sup>74</sup>Philip Carter. LETSystems Provide a Solution to Unemployment Problems. Down to Earth Magazine. New Delhi, India. 1997. <http://ccdev.lets.net/dtearth.html>

## **Managing the system and the money supply**

Managing a parallel currency system is not a very complex task, but there are a series of functions to be fulfilled. People are needed for:

- Recording transactions, keeping account and books.
- Updating the catalog of offers and requests.
- Representing and promoting the system.

A group of participants is needed for helping to run markets and other large-scale promotion activities.

Managing the money supply in a LETS system is very simple. As the system is balanced at zero, proper accounting will not cause any problems. However, if an imbalance appears an audit must be done to find the error.

Managing the money supply in an HOURS system is much more difficult. The administration has to monitor the economy, and gather feedback about how the money is circulating to see if signs of inflation appear. Inflation may not be noticeable in a small system with a large regular economy, however it may be much more significant if the parallel currency makes up a significant portion of the economy. As with the Bonds issued in Salta province of Argentina, the issuers must be vigilant that their currency does not end up causing more problems than it solves. In this case, managing the money supply involves devising ways of removing the parallel currency from circulation, or alternatively, encouraging people to spend money to avoid the money stalling in 'wells'.

## **Entrance and User Fees**

Parallel currency systems are generally funded through entrance and user fees that may be in the national currency, or in combination with the parallel currency. Or as has been suggested, funds can be generated by fulfilling some large task while launching the new money at the same time.

These systems are almost always non-profit, in which case fees and charges are meant only to cover costs, not generate profit. Since we are talking about these types of non-profit systems, we will look at the four basic types of service charges.

### **Fixed Period Fee**

This can be a one-time entrance fee, a yearly fee, or a monthly fee. Sometimes, all three types can be charged: an entrance fee in national money upon joining, a yearly fee at the start of the second year in either national or parallel currency, and a monthly fee which is usually charged in the local money.

### **Negative-Interest "Demurrage" Fee**

This is a fee (about 7-12% yearly) charged to positive balances to discourage hoarding, or to reduce positive balances that are out of proportion to those held by other users of the system.

In a LETS, this can be a charge applied automatically. In printed currency systems this can be applied through stamps applied to the bill, for which a small fee is charged.

Either way, it is important that the users of the system are well informed about this fee so that they do not feel they are being taken advantage of by this fee.

### **Fixed or Variable Amount Per Transaction**

Account-based systems like LETS can easily charge transaction fees, or even a percentage of the amount traded, but both of these methods work either to discourage recording trades through the system, or to discourage trading altogether. This type of fee is not worth applying to printed currency systems.

### **The Unit of Value**

The function of a unit of value is to compare prices between different products at a given time, as well as for the same product at different times, as well as value of the unit itself in comparison to other currency units.

The ideal unit of account is one which is generally known, the value of which is generally accepted and reasonably stable. With LETS systems, the unit of value is always tied to the national currency. While this is reasonably safe in North America and Europe, it is risky for the context of an unstable currency that is often subject to inflation. The HOURS system's unit is valued at one hour of unskilled (minimum wage) labour. Or, the unit of value can be based upon the value of certain amounts of a variety of commodities.

While tying the value of the parallel to the currency has a number of advantages such as ease of use, ability to network localities and regions, it may be a good idea to use a number of values. In Mexico, for example, the Tlaloc is valued at one hour, 35 pesos or \$1.50 US. This offers a strong platform for stability.

### **Parallel Currencies and Existing Local Development Initiatives**

Parallel, local and community currencies can be used in a complementary strategy to improve the operation of a number of existing Local Development Initiatives (LDI) to increase their reach, benefit and impact.

## Parallel Currencies and Tontines or Credit Unions

Parallel currencies which utilize a system of accounts, such as LETS, are ideal for uniting with an existing Credit Union. The savings of parallel currency members can be used for a lending circle program, the turnover of trading can be used to assess creditworthiness, loans can be repaid in the parallel currency, funds can be used to back the value of the parallel currency, the options and the benefits show great potential for a relationship between the two.

LETS principles and Credit Union principles are nearly identical.

## Parallel Currencies and Microcredit

Micro-Finance Initiatives, usually called microcredit, is rapidly filling the gap left by banks that are often unwilling and incapable of loaning small amounts to small-scale enterprises and individual producers. Where loan sharks used to take advantage of this, microcredit is giving people the opportunity to purchase capital without having to borrow at usurious interest rates.

Since the micro-credit approach is founded upon resources generated from within the informal sector, small businesses, household enterprises and community initiatives have discovered that they can become financially independent without having to borrow from outside lenders. Borrowing from money pooled by neighbours, rather than from an impersonal institution like a bank, has guaranteed a near 100% repayment rate.

Trying to loan money in a system where money is scarce is a paradox<sup>75</sup>. What if you can't borrow because there is no money? And if you can borrow, what if the goods made from material purchased on loan don't sell because there is no money?

The microcredit and community currency systems thus form an interesting complementarity<sup>76</sup>. The community currency system helps to increase the money supply and frees money needed for loans for fixed capital purchases.

## Parallel Currencies and Labour-Intensive Projects

Parallel currencies can be used to offset the costs of large labour-intensive construction, agricultural or environmental restoration projects. The BONUS-scrip project suggests how this might be done. In short, the workers are paid in local currency, backed by the fund that would normally be paid to them as wages. Part of the fund is used for loans which can be repaid in the local currency, closing the loop. Thus two objectives can be achieved with one amount of money. Donors and project managers interested in multiplying the

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<sup>75</sup>Stephen DeMeulenaere. Off the Hook: [How Microcredit & Local Exchange Systems Work](http://ccdev.lets.net/hook.html). New Internationalist magazine. October 1998. <http://ccdev.lets.net/hook.html>

<sup>76</sup>Stephen DeMeulenaere. [Financing Local Initiatives While Strengthening the Local Economy: The Union of Microcredit and Community Currency](http://ccdev.lets.net/microcdt.html). 1997. <http://ccdev.lets.net/microcdt.html>

impact of their contribution may find supporting a parallel currency system in the course of undertaking a project to be worthwhile.

### **Parallel Currencies and Community Health Promotion**

The increase in personal and community well-being noted by participants in local and community currency systems is already well known and documented<sup>77</sup>. More research suggests that LETS would be very beneficial in the promotion of community health.<sup>78</sup>

In addition to a national-currency denominated local currency, LETS can also record exchanges made in hours of time. Thus the ability to record trades such as child care, personal therapy and nursing, and other activities could be used in the promotion of community health.

### **Parallel Currencies and Skills Development**

As the system in Dakar, Senegal discovered, parallel currency systems are significant in their ability to identify specific education and training needs and meeting them within a market framework. They discovered an immediate need for training in skills that could be marketed, as well as general education for those that may not be directly marketed but could provide the foundation for future skills development.

The need for marketable skills development is immediately identified through the use of a Noticeboard of Offers and Requests. Individuals willing to provide training (mentors) may be found in the Offers section who would benefit by having an apprentice. The trade creation effects of the local currency may also open up new areas for which there is no local expertise, requiring outside educators. If skills are imported then some national currency funds will be required, so a better option may be to seek out local expertise. Skills that cannot be directly marketed can be identified through the community markets. Some education, such as mathematics, construction, agriculture, and computer skills can be learned in productive activity, again providing an outlet for expected trade creation or cooperative development activities.

The experience in Senegal suggests that the demand for training in marketable and non-marketable skills is high, along with the willingness to pay for it in local currency. This is because training offered by private institutions is often too expensive for low-income people to be able to attend, and because they don't have time to devote entirely to study. Tying skills and basic education into productive activity would be very beneficial for the people in the community. The initiative to set up a Popular University will be of extreme interest in this respect.

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<sup>77</sup>Even Gran. Green Domination in Norwegian LETS Systems: Catalyst for Growth or Constraint on Development? International Journal of Community Currency Research. 1998. Volume 2. <http://www.bendigo.latrobe.edu.au/arts/ijccr/volume2/2toc.html>

<sup>78</sup>Bonnie Erickson. LETS & Community Health Promotion. unpublished.

## Parallel Currencies and Environmental Programs

With increasing concern about the environmental impacts of economic activity in poor countries, the use of parallel currencies could be a very good way of guiding projects so that they meet environmental as well as economic objectives. By shifting demand from imported to local products, by improving the efficiency of the local economy and by re-directing economic decisions to meet local needs and concerns, a parallel currency system could have a very important role to play.

Since community currencies are only good within the locality in which they are circulating, members of the system will look for possibilities to substitute purchases formerly made in the national currency with those made in the local. The increase in local production reduces the pollution caused by import activities, and the development of local repair services may result in the increased working lifetime of equipment, resulting in further savings. The activities that are carried out for economic gain become issues of concern for people who see greater economic benefit in preserving resources than in turning them into short-term economic values.

The example of the Curitiba scrip, where bus tokens were given in exchange for those who collected garbage, which could be exchanged for money with bus riders is a good example of how parallel currencies and environmental objectives can work for the mutual benefit of the environment and the economy.

## Parallel Currencies and Appropriate Technology (AT) Initiatives

The failure of aid policies in the 1960s and 70s, involving the transfer of large-scale capital and energy intensive industrial mega-projects was clearly identified by E.F. Schumacher in his book "Small is Beautiful"<sup>79</sup>, followed by his proposal for Appropriate Technology (AT) Initiatives.

Schumacher argued that such projects, although they may have worked to pull North America out of the depression, and drove the boom years of the 1950s and 60s, they were not transferable to the context of poor countries. This is because the investment needed to open a workplace was high, created social elites, located manufacturing near cities which resulted in a draining of people from rural areas looking for work in the city. Once the technology was established, the developing country would be dependent upon rich countries for spare parts, skills training, markets and capital.

By the time of the publishing of *Small is Beautiful*, the evidence of the failure of the old model of development was mounting. Large industries were going bankrupt, were far in debt, and could only operate with regular injections of external capital. The trickle-down effect did not work, the living standards of the rich and the poor did not increase. Instead, it became increasingly clear that small scale, localized industry and agriculture was a more efficient and effective way of distributing income. This changed the perspective from straight

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<sup>79</sup>E.F. Schumacher. *Small is Beautiful: Economics as if People Mattered.* New York: Harper and Row Publishers. 1975.

technology transfer to the development of technology appropriate to the situation, such as technology that can be manufactured, operated and maintained locally, operated by its owners, using local renewable materials and energy, with high reproducibility.

Through AT organizations, many appropriate technologies are now operating, from agricultural equipment and food processing machinery to water supply methods, small-scale textile and manufacturing plants, water-energy machinery and human-powered transport. The IDRC, the funding organization of this project is a known AT supporter, along with UNICEF and the ILO at the international level.

Appropriate Technology activities may have a strong affinity for parallel currencies because of their common view that the strengthening of the local economy is essential to improving people's lives. As with the other potential collaborations mentioned above, collaboration between Appropriate Technology and Parallel Currency would be synchronous by diversifying the range of products that are produced and available at the local level, improving on-the-job skills training and education, increasing the range of AT activities through no-interest loans, and etc.

Parallel Currencies and Appropriate Technology share a very similar design philosophy concerning international development, seeing the need for self-help tools being created at the local level, factored by local conditions and appropriate to the society and environment of the area, rather than as a straight copy and transfer from North America or Europe.

### **Parallel Currencies and Fair Trade Organizations**

Fair Trade Organizations (FTOs) are those which operate trading networks for goods from the majority world countries which seek to achieve fairness, social justice, cultural promotion and preservation, improved working conditions, high environmental standards, democratic involvement in workplace decisions and fair pay. Some organizations go further than others, providing a guaranteed minimum price, low-interest loans, long-term relations and other benefits. In return, the use of a special label identifies for consumers of the socially, ethically and environmentally sound quality of these products.<sup>80</sup>

FTOs and local currency groups share the objectives of increasing and stabilizing the incomes of people in poor countries, but they do this from different sides with the FTO in a wealthy country and the local currency group operating at the local level. Although their motives may clash because the local currency group seeks to eliminate dependency upon the export market, the ability to export may be enhanced through an alliance with the local currency group.

Parallel currency organizations are able to trade over long distances using the internet, meaning that advantages may be found by using a parallel currency for fairer international trade, and could result in an international marketplace for fair trade goods using a stable standard currency.

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<sup>80</sup>See International Federation for Alternative Trade. <http://www.ifat.org>



## **Parallel Currencies in Post-Conflict/Disaster Reconstruction Initiatives**

The benefits of introducing parallel currency systems to local areas suggests a strong potential for encouraging the stability of local services, infrastructure and society in post-conflict or natural disaster situations. In the absence of regular activities following conflict or disaster, microcredit and community currency can quickly take a major role in rebuilding a shattered economy and healing a disrupted society. The possibility of introducing training programs, of engaging in large projects can assist in demobilization and disarmament while giving former soldiers and/or displaced people the tools with which to rebuild their lives again.

It has to be remembered though that community currencies do not create new resources, they only mobilize existing resources, so depending upon the extent of the damage both geographic/environmental and social, it may take a long time to heal the wounds of war. Local currencies also need a basis of social trust, thus the ability to stay in one place for a long time is an absolute necessity. However, in that case the community currency can be used to mobilize resources in conjunction with other initiatives, rather than be used solely as a financial micro-initiative.

## **Conclusion: The Future of Parallel Currencies in Low-Income Countries**

In this paper, we have attempted to bring together disparate information into one comprehensive document for use by researchers and developers of local currency systems with an interest in starting local currency systems in the majority world context.

We have presented our understanding of how the design and function of the conventional economy results in the disenfranchising of low-income people and countries, and loss of local democratic control over economic activities that take place within a particular locality. We suggest that reform of these economic designs and mechanisms is needed, not by presenting a completely separate alternative, but by providing a method that fits within conventional economic understanding and parallels conventional economic activity, thus working to steer the conventional economy in directions that are more beneficial for people, localities and the environment.

Through participatory action research, we have demonstrated the extent to which a mutual credit trading system is helpful to the users of the Tianguis Tlaloc local currency, in the words of those who actually use the system. Clearly, the introduction of a local currency system gives people living in a local area distinct advantages over those who come from outside, putting control over local decisions directly in the hands of the people who live there.

Although the degree of participation in the Tianguis Tlaloc system is small by comparison to the total population of Mexico City, it is significant within the neighbourhoods in which the system operates. Our research notes few social and technological barriers to diffusion and use, and these barriers can be overcome with sufficient education, time and use of the local currency.

By participating in a local currency system, we can see the great wealth that exists in our communities, wealth that goes unmobilized for an insufficient amount of currency to mediate the potential exchange of this wealth. We can also see the many needs that exist, as expressed in the noticeboard of offers and requests, needs that can more easily be met through this community marketplace by the wealth that already exists. The limits are few and the possibilities are great.

It is hoped that the material and ideas presented in this paper will not only be used to start local currency systems, but will also be used to lay the groundwork for further local currency developments by seeking understanding with larger international development research, economic development and development funding organizations.

At the time of this writing, parallel currency systems are operating in the countries of Senegal, Thailand, Argentina, Uruguay, Ecuador, Peru and Mexico, with projects in interest/development stages in Indonesia, Honduras and South Africa. We look forward to seeing the results of their research and practical efforts to give people the tools with which to meet their needs.

As we have shown in this paper, the application of parallel currency systems in the majority world offers numerous benefits to the community, and significant advantages to the local economy. Redistribution of existing goods

and services, repair of goods, and the sharing of goods increases economic activity without necessarily increasing material throughput in ecosystem terms. In other words, using parallel currencies in the practice of Local/Community Economic Development can achieve broad development goals without necessarily increasing damage to the environment at the same time. Parallel currency systems are networks that are truly in the hands of the people.

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## **Appendix**

1. The Tianguis Tlaloc Newsletter and Noticeboard of Offers and Requests
2. Pochteca Plan