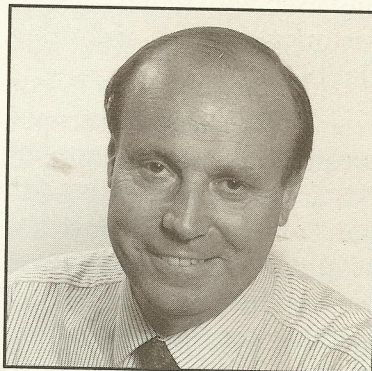


## A "Green" Convertible Currency

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Many countries of the world face a fourfold dilemma. They are experiencing unemployment, inflation, and ecological degradation, and they lack a convertible currency. They produce some raw materials for which an international market exists, but because of the burden of debt servicing and a soft currency, their dilemma yearly becomes more acute.

This article proposes a solution in the form of a new convertible currency, that I call New Currency. This com-

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Note: In the last issue, I wrote an article, "Whatever Happened to Usury?", which described some of the often neglected negative effects of high rates of interest. This article, by way of contrast, describes the virtues of *negative* interest rates. Implausible as this may seem at first thought, the concept has actually been demonstrated to be sound.

—Willis Harman



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prises a combination of two familiar concepts: stamp scrip and currency backed by a basket of commodities.

Stamp scrip is a medium of exchange characterized by a small monthly "user fee" or "negative interest" charge. This fee was typically levied by requiring a small stamp to be affixed to the back of the bill each month to revalidate it. The user fee gives an incentive to the bearer not to hoard this currency. Its practical and demonstrated economic effects include strong, positive impacts on employment creation and on inflation control. It also provides structural support for ecologically sound economic growth. It has been tested and used with remarkable success in a variety of cultures and historical settings, including Western Europe as recently as the 1930s.

The second concept—a currency backed by a predetermined basket of commodities—is more familiar. An original aspect of my proposed plan is that a country's central bank would guarantee delivery of the value of the basket but would remain free to deliver it in the form of any mix of the commodities included in it. This approach provides unusual stability for the international value of the currency, while guaranteeing substantial flexibility in the way the country fulfills its commitments.

The stamp scrip concept actively promotes internal economic stability and employment growth, while the basket of commodities concept ensures immediate convertibility of the national currency and the international stability of its purchasing value. These two concepts fit together by equating the negative interest rate of the stamp scrip with the approximate costs of storing, insuring, and delivering to their respective international markets the commodities in the basket.

#### The Stamp Scrip Concept

The negative-interest scrip concept was originally developed during the latter part of the last century by an Argentinian businessman and economist named Silvio Gesell. The basic (and unusual) premise is that money as a medium of exchange is considered a public service good, and therefore a small user fee is levied on it. Instead of receiving interest for retaining such a currency, the bearer in fact pays interest for its use (typically at a rate of 1 to 2 percent a month). Interestingly enough, Gesell's concept of "negative-interest money" was supported by John Maynard Keynes in his *General Theory*. However, banking interests have rather con-

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sistently strenuously opposed it, even though banks could keep a key role in a New Currency economic system.

The primary practical effect of a negative-interest currency is a strong incentive to avoid hoarding. People prefer to spend the currency very quickly on goods or services and thereby generate a chain reaction of economic transactions that otherwise would occur much more slowly or simply not at all. This means in practice a strong and immediate creation of local employment without the need for government intervention.

Thus, negative-interest scrip can be created and used in a local setting to generate local employment and other benefits. When stamp scrip was used from 1932 to 1934 in the Austrian town of Wörgl (in parallel with the official state currency), there was immediate creation of additional employment without the need for government intervention and without the creation of new local or public debt. The alternate currency circulated with many times the rapidity of the official Austrian currency, and there was local prosperity in the midst of national depression.

Negative-interest currency can help to push inflation down. Inflation is simply the depreciation of a currency in terms of goods. A negative-interest currency—like any commodity that has a significant storage cost—becomes automatically more valuable over time (a look at the price of future delivery of gold or copper in the financial pages compared to today's "spot" price shows that effect). In addition, in a "normal" economy, there is a substantial amount of hidden debt servicing in every purchase we make—estimates put it on average at 30 to 50 percent—which would be gradually eliminated by the introduction of negative-interest currency. The combination of the automatic appreciation of the value of the currency and the gradual reduction of the interest component from all capital-intensive goods and services, results in a powerful technique to combat inflationary tendencies.

There is an additional beneficial effect with regard to the environment. The higher the money rate of interest, the stronger is the pressure to discount the future and to place immediate gains ahead of long-term concerns. With negative-interest currency, this pressure is not only absent but even reversed, and more environment-friendly priorities automatically prevail.

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During the economic depression of the 1930s, Europe saw a number of practical monetary experiments with negative-interest alternative currency. The device worked splendidly. The alternative currency (typically issued by a small city or region) had many times the rapidity of circulation of the official currency, and the anticipated employment and environmental benefits were actualized. In Wörgl, for example, people spontaneously started replanting forests just to dispose of their negative-interest currency in anticipation of *future* cash flow to be expected from the growing trees. In every case, however, the central bank halted the experiment after a few years. The experiments were blocked not because they were unsuccessful but because they were so remarkably successful that they were perceived as threatening to centralized decision making and the central bank's monopoly on issuing currency.

#### Commodity-Based Currency

The idea of a commodity-based currency may seem to some a step backwards to a more primitive form of exchange. But in fact, from a practical point of view, commodity-secured money (for example, gold- and silver-based money) is the only type of money that can be said to have passed the test of history in market economics. The kind of unsecured currency (bank notes and treasury notes) presently used by practically all countries has been acceptable only for about half a century, and the judgment of history regarding its soundness still remains to be written.

With a commodity-based currency, a central bank could issue a New Currency backed by a basket of from three to a dozen different commodities for which there are existing international commodity markets. For instance, 100 New Currency could be worth 0.05 ounces of gold, plus 3 ounces of silver, plus 15 pounds of copper, plus 1 barrel of oil, plus 5 pounds of wool.

This New Currency would be convertible because each of its component commodities is immediately convertible. It also offers several kinds of flexibility. The central bank would agree to deliver commodities from this basket whose value in foreign currency equals the value of that particular basket. The bank would be free to substitute certain commodities of the basket for others as long as they were also part of the basket. The bank could keep and trade its commodity inventories wherever the international market was most convenient for its own purposes—Zurich for gold, London for copper, New York for silver, and so on. Because of



arbitrage between all these places, it doesn't really matter where the trades would be executed, as the final hard currency proceeds would be practically equivalent. Finally, since the commodities also have futures markets, it would be perfectly possible for the bank to settle any forward amounts in New Currency, while offsetting the risks in the futures market if it so desired.

This flexibility results in a currency with very desirable characteristics. First of all, the reserves that the country could rely on—actual reserves plus production capacity—are much larger than its current stock of hard currencies and gold. The New Currency would be automatically convertible without the need for new international agreements. Since the necessary international commodity exchanges already exist, the system could be started unilaterally, without any negotiations. Because of the diversification offered by the basket of several commodities, the currency would be much more stable than any of its components—more stable, really, than any other convertible currency in today's market.

#### The Negative Interest Rate

Besides being commodity-based, the New Currency would have a negative interest rate reflecting the costs of storing and insuring the underlying commodities and transporting them to the key international markets. Transferring these real costs to the bearer automatically provides all the advantages of stamp scrip.

There are a number of ways in which this negative interest rate could be levied. To begin with, most of the "money" in circulation takes the form of accounting entries in a computer somewhere, and it would be fairly simple to electronically charge the negative interest rate to these accounts. For bills actually in circulation, one simple method that has already been used is the stamps mentioned above. It is also possible to use an electronic debit card similar to the magnetic-strip cards used for the rapid transit systems of San Francisco and Washington, D.C.

As international trust in the New Currency increased, one would expect that fewer holders would request redemption of the currency against physical delivery. This was the case with the gold-backed dollar in the postwar era. People rarely requested physical delivery; it was sufficient to know that such delivery was available.

One obvious concern about this concept is the effect on normal banking if a country were to shift to New Cur-

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rency. Let us assume that the negative interest rate being charged to the public is 2 percent a month. The banks themselves would be charged a slightly lower percentage (perhaps 1 percent) on their own funds to provide them with incentives not to hoard their reserves. Banks would be able in a free market to make loans for housing or other credit-worthy projects at a low but positive rate, such as +1 or +2 percent. In other words, banks could still have their normal spreads between the cost of funds and the market interest rates, and market rationing would still operate. The only (but significant) difference from the "normal" interest rate structures is that the starting point would be a negative 2 percent instead of some positive rate, as is the case everywhere today.

With a reduction in the propensity to hoard currency, one might wonder whether savings and investment would be drastically reduced. People would, indeed, save less in the forms of cash, savings accounts, and cash equivalents. But they would save more in real physical assets, including productive assets. Stocks and bonds would, in fact, become on the whole more valuable and easier to sell than in a "normal" market economy because they would represent promises to future cash flows. (The dynamic is similar to what occurs when interest rates drop and stocks boom.) All other things being equal, one should even expect a net increase in investments after introducing negative-interest currency, but the forms that these investments would take would be different.

The New Currency could be introduced gradually, while the old currency was still in circulation. Furthermore, negative-interest scrip could be employed locally either independently or as part of an overall national plan to move toward a convertible New Currency.

#### Summary: Advantages of the New Currency Concept

In sum, the New Currency concept can provide a number of advantages. First; as a number of economists have concluded, negative-interest currency is one of the few true long-term structural measures that can spontaneously help to achieve ecologically sustainable growth within a market economy.

Second, negative-interest scrip can be used on a decentralized basis to stimulate local initiatives and resolve local social and economic difficulties. This could be done independently by local decision or as a pilot project to test out aspects of the plan before it was adopted at the national level.

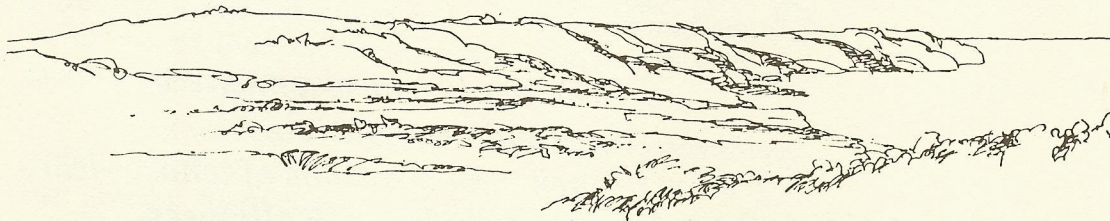


Third, the anti-inflation impact as a consequence of both its automatically increasing value over time and the elimination of the interest component in the costs of all goods and services.

Fourth, the New Currency would become immediately convertible without the need for any new international agreements. It would constitute an attractive new currency because of its inherent stability and its built-in protection against inflation. It would automatically provide a country with very substantial reserves, including present inventories and future production capacities of up to a dozen commodities. It would also provide greater flexibility in the disposal of these commodities in the international markets.

Fifth, the scale and speed of introduction of the stamp scrip experiment are extremely flexible. Negative-interest currency could be introduced in parallel with existing currency. It could be made permanent after its benefits were fully demonstrated, or the scrip could be retired if it were judged no longer to be needed. It could be introduced in some cities or regions and not in others.

Finally, the two approaches can be used together. A New Currency issued by a central bank would create an internationally convertible currency of remarkable stability. Decentralized issues of stamp scrip by a variety of local communities would maximize the creation of employment and economic activity in those communities. In combination, the two approaches would mutually reinforce each other to provide a flexible and powerful monetary strategy.



*A disordered currency is one of the greatest political evils.*

—Daniel Webster (1782-1852)