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## "Internet Currencies for Virtual Communities"

by [Bernard Lietaer](#)

This post explains why the budding cybereconomy should look beyond the limits of Industrial Age currencies (i.e. our 'normal' national currencies such as the Dollar, Deutsche Mark, Pound Sterling, etc.) toward a richer variety of payment systems specifically adapted to the requirements of cyberspace. It is organized under six headings as follows:

1. - Reasons for this Proposal;
2. - How Currency can Weave or Unravel Community Fabric;
3. - The Net: an Ideal Space for Economic Symbiosis;
4. - Desirable Characteristics of Internet Currencies ;
5. - Currencies which could meet these Characteristics;
6. - Some Questions.

For the sake of brevity, [URLs](#) will be used systematically to provide supporting evidence.

### Reasons for this Proposal

Virtual communities today are 'communities' because social bonds have sprouted up around a 'gift economy' of open information exchange. Even the word 'community' itself (deriving from the Latin "to give among each other") reveals the key relationship between gift exchanges and community building. Just as traditional communities have unwittingly suffered from the competition-inducing process built in to our 'normal' national currencies, communities on the Net similarly may be torn apart if the new payment systems developed for the Internet rely exclusively on these types of currencies.

A recent survey on values and priorities in the US has revealed that an astounding 83% feel that our top priority should be to "develop and heal our communities". While most people appear to recognize the importance of healing communities, few seem to understand exactly where the rifts dividing us came from - or what to do about them. Even some of the people who created virtual communities have not always been aware that the secret of their success relates to the fact that they had created a 'gift economy' on the Net. "I'll help you today, and someone else will help me if needed some other day" has been the common pattern in the spaces wherever successful virtual communities have sprung up.

As the Net becomes home to the growing number of commercial enterprises, those who value the Net as community space may want to take some precautions lest virtual communities meet the same fate as almost all the gift economies that preceded them. The time to become aware of this connection has come because all signs point to an imminent change in the way the Net will operate. For instance, [Business Week's 'Special Report about Internet Communities' \(1\)](#), points out that "Today's push is to turn the age-old appeal of community into cash". And there seems to be little awareness either in business or on the Net that unless some precautions are taken in the way this is done, we may kill the proverbial goose that lays the golden eggs, and virtual communities will simply disappear as have most traditional "primitive" communities operating on the basis of "gift economies".

In short, virtual communities have thrived *because* they are gift economies and will continue to do so only if during the development of commerce on the Net there is a choice of types of currencies, at least some of which are compatible with a gift economy.

### How Currency can Weave or Unravel Community Fabric

Ample anthropological and historical evidence reveals that the choice of the kind of currency used within any community is definitely not value-neutral. On the contrary, the medium of exchange chosen by a community sets and reinforces patterns for economic and social exchanges among its members, determining whether participants will tend to spontaneously cooperate or compete with each other. It is not accidental that all monastic communities, for instance, from Buddhist to Benedictine, have strictly forbidden the use of 'normal' money among its members. Whatever is left of our sense of family community still is nurtured by gift exchanges at weddings, birthdays, and holidays. Even the most 'modern' scientific community has unwritten rules that information exchanges are a gift process, and the rewards are consideration and reputation rather than money. Whenever a subgroup of the scientific community has deviated from that tradition (as for instance when patenting of genetic materials became of commercial interest to universities), cooperation among its members has significantly suffered.

Because all [our familiar national currencies](#) are now pure "fiat" money, created by bank-debt and bearing interest, their mode of circulation systematically fosters competition among participants (2). Two mechanisms converge to create that process: someone has to artificially keep bank-debt currency scarce for it to keep value (this is one of the key jobs of Central Banks such as the Federal Reserve); and as interest is intertwined in the creation of the money itself it further pits participants against each other (3).

These currencies have proven a very effective tool to propel us into and through the Industrial Age. They have become so well established over the past century that by now we have even trouble imagining other kinds of currency are available. But is this exclusive emphasis on competition-generating currencies still valid now that we are moving into the Information Age? Indeed, the use of this kind of currency happens to be one of the key systemic causes of the community breakdown everybody is complaining about in our societies. If Netizens want to continue building virtual communities, the exclusive use of competition-generating currencies on the Net will predictably provoke the same destruction of virtual community as it did and still does in the 'physical' world.

Fortunately, not all currency systems entail the above 'community corrosion' process. We will see later that some types of currency have already been successfully implemented which provoke the opposite phenomenon - i.e., support and cooperation among participants - and are therefore compatible with the dynamics of a gift economy. This is why I propose that - in parallel to the dominant competition-inducing national currencies - a specific Internet currency system be implemented which would provide a cooperation-inducing alternative for use for Netizens who choose to do so.

After all, money is *not* a thing, it is simply an agreement within a community to use something (almost anything has been used historically) as a medium of exchange. Virtual communities could therefore consciously choose which currency systems they want to use among their members. Examples of the kind of choices available will be provided later, when we show that there has been a significant development in recent years in non-traditional currency systems in many countries around the world

It so happens that some characteristics of the Net may make it an ideal space where the [community-supporting currencies](#) could happily thrive next to the [traditional national currencies](#), enabling a new symbiosis between both approaches.

## The Net: an Ideal Space for Economic Symbiosis

Because Internet offers unlimited 'space' and transcends natural and cultural boundaries, the electronic marketplace need not be limited to one exclusive currency system; indeed, a 'free market' of different kinds of currency systems may benefit all of them. Virtual space provides indeed an ideal space for the coexistence and integration of different economic paradigms, because of its flexibility and non-exclusiveness. In physical space, if Big Business buys up Fifth Avenue in New York, there is no room for alternative systems to even be present, not to speak of flourishing. The Net in contrast always can expand to accept another parallel system without detracting anything from each other. Internet itself would be enriched by such a variety. Furthermore, new synergies between virtual communities and local communities would become possible, improving the quality of life of the participating Netizens.

In fact, the decisions we are making now about Internet payment systems may pave the way for either a chaos of the Collapse of Rome proportions, or a cooperative productivity greater than we have ever thought possible before.

In order to develop this idea, it is useful to summarize the major pieces of the puzzle in front of us:

- One of the most intriguing and encouraging aspects of Internet developments has been the upwelling of "virtual communities" compellingly documented in Howard Rheingold's [Virtual Communities: Homesteading on the Electronic Frontier](#) (4).
- Recently the business world has also discovered the importance of this phenomenon. For instance, Hagel and Armstrong's new book [Net Gain: Expanding Markets Through Virtual Communities](#) (5) provides some strategies on how business could benefit from using virtual communities for profit.
- The emergence of the Cybereconomy is indeed potentially the most important economic development of our time. Some estimates claim that 20 million Netizens have made at least one purchase via the Net in 1996, resulting in an estimated US\$ 36.5 Billion in sales. Furthermore, this is definitely the fastest growing economy in the world, estimates running up to US\$ 175-200 Billion by the year 2000. Typical Net-purchases include softwares, books and CD's. But even Chrysler reported that 1.5% of its 1996 car sales occurred via the Net, and is predicting that within 3 or 4 years that percentage will reach 25% (6).
- There are now at least a hundred projects under way to create [Internet payment systems](#). Most of them aim at making a profitable, efficient, secure, and/or privacy-guaranteed use of the existing national currencies (7). A few aim at creating a payment system independent of these national currencies (8). Some are backed by real commodities such as [precious metals](#) or [real estate](#) (9). I estimate that at least 95% of all these projects (payment systems for alternative as well as traditional currencies) will fail, but that the remaining 5% could radically change our economy and our world.
- Last but not least, the signs are clear that traditional "jobs" are going to get scarcer in the long run everywhere (see a/o Rifkin's [The End of Work: The Decline of the Global Labor Force and the Dawn of the Post-Market Era](#) [10]). It would in any case be important to make it easier for people to create their own activities on the Net, and actually be able to earn 'money' on the Net which could be used to spend on their daily expenses. Notice that this would be in \*everybody's\* advantage, whether Internet users or not, because otherwise the social cost of rising unemployment will be borne directly or indirectly by all members in society.

## Desirable Characteristics of Internet Currencies

I propose that the following five characteristics would be desirable for Internet currencies:

### **efficient and secure in an electronic payment system**

#### **convertible into local expenses**

(i.e. answering the key question: how can I use credits earned on the Net to pay for my food and daily needs?);

#### **non-national**

One key characteristic of the Net is its lack of national boundaries; while national currencies are specifically designed to foster national consciousness. Why should a German buying a product offered by an Indian company on the Net have to pay in Deutsche Mark, Dollars or Rupees? The precedent of the expansion of 'frequent flyer miles' as a means of payment not only for air travel but also long-distance phones, hotels, taxis, etc. show how less traditional currencies - in this case privately issued corporate scripts - can establish themselves to fulfill specific purposes.)

#### **self-regulating on the Net itself**

The current national currencies are \*not\* self-regulating; they require a Central Bank to operate, and credit approval by banks to be created. This feature is important because the Net itself is a self-organizing system, and it would run against its entire established spirit and dynamic to require a central authority to operate its money system;

#### **supporting the creation of community**

Again, the opposite of what our 'normal' national currencies do.

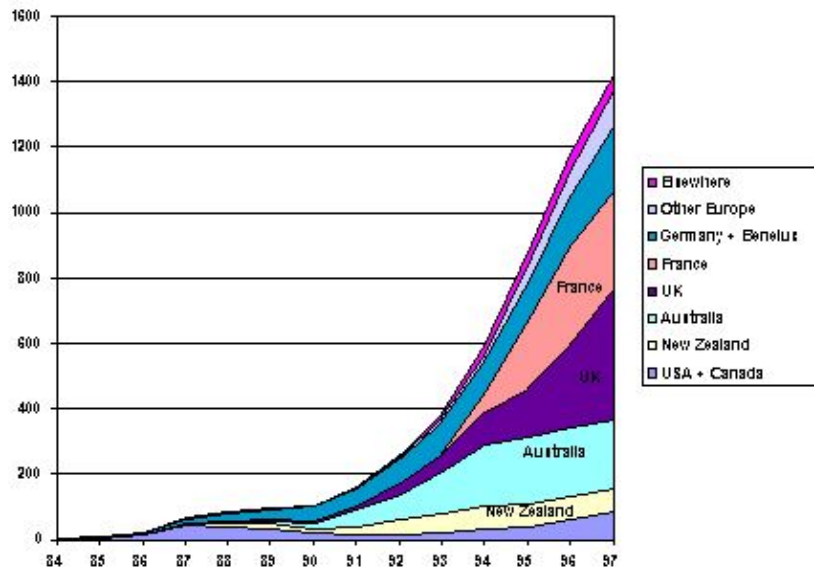
None of the currencies and payment systems currently offered on the Net meet all these requirements. Specifically, payment systems using the existing national currencies clearly meet the first two characteristics but none of the others.

## Currencies which could meet these Characteristics

There is one type of currency, however, which could be made to meet all five characteristics if at least some of the virtual communities would choose to agree on it. Currency systems modeled after Michael Linton's: [LETSsystem](#) (Local Exchange Trading System) and Edgar Cahn's [Time Dollars](#) hint at an answer. They are Mutual Credit Systems where two participants agreeing on a transaction create the necessary currency respectively as a debit and credit. They are therefore self-regulating, needing no Central Bank to monitor money supply. Most are already completely computerized. Finally, most important for our purposes here, there is ample pragmatic evidence that using such currencies actively promotes cooperation rather than competition among participants. [\(1\)](#).

In recent years there has been a sudden multiplication of such systems, particularly in areas where unemployment has been a problem. Notwithstanding their success at accomplishing their objectives, most of this phenomenon has remained below the radar of mainstream media or economists. The following graph illustrates that well over a thousand communities in a dozen different countries have already started their own local currency system. The only system which has been in operation for over 60 years (the [WIR](#) system in Switzerland) has now a yearly turnover in 'wir' currency equivalent to 2.5 Billion SF - about 2 Billion US\$ - demonstrating the potential of such systems at maturity [\(2\)](#).

## Number of Community Currency Systems Operational in Twelve Countries 1984-1996 [\(3\)](#)



The only additional step needed to create the Internet currency meeting our specifications is to have an automatic electronic clearing house for such local currency systems, clearing house which could operate on the Net itself. The Multiple-Registry software needed to enable such automatic clearing among different community currency systems operating in distant geographical locations are already available. What they would enable in practice is that someone in Manchester, UK, for instance, could 'earn' credits by providing a service on the Internet, and automatically exchange them for use in her local LETS system. Conversely, the credits earned in Manchester's local economy would be more valuable by becoming exchangeable for goods and services on the Internet. "Think globally, act locally" would gain some added pragmatic reality in this approach.

Note that I do \*not\* claim that no national currencies should be used on the Net, or that community currencies of the type described above could or should replace the national currencies. For instance, national currencies are the obligatory means for tax payments, and they will remain an effective tool to foster competitive behavior wherever that is appropriate and useful. In any case, the billions of dollars already invested in creating national currency payment systems will ensure that such systems will remain a dominant force on the Net and elsewhere. But I do claim that time is ripe to encourage in our societies some cooperation as well; and that both types of money systems could become complementary to each other on the Net.

## Some Questions

### Can virtual communities agree on any currency system other than the commercially driven national currencies?

I believe that the explosive expansion of the cybereconomy is an important positive development. However, burgeoning virtual communities - perhaps the most interesting social phenomenon on the Net - if they become colonized by a monopoly of national currency systems, will soon self-destruct. It would be a sad paradox to see the leading edge communities go the same way as most gift economies of traditional "primitive" societies have been in the past. If it is true that virtual communities are a substantial business opportunity, it would also be important for business itself that the way to develop that opportunity does not kill it.

### Can an alliance be forged between Netizens and local currency activists?

Most existing community currency groups are already active on the Net, but there are obviously many Internet participants who do not have a local currency operating in their area at this point. This is particularly true because the most active Internet country - the US - has also proportionally fewer community currency systems operational until now. [See graph above] However, I expect that during the next recession in the US, the number of local currency systems will take off in this country as they did elsewhere when unemployment crept up.

### How do you envision the future of virtual gift economies as commerce and payment systems establish themselves on the Net?

What should we do about it?

## Works Cited

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2. See supporting definitions and arguments at <http://www.transaction.net/money/book/rethink2b.html>.
3. An illustrative fairy tale on this topic is available at <http://www.transaction.net/money/book/>

- [rethink2b.html#round](#).
4. Rheingold, Howard. *The Virtual Community: Homesteading on the Electronic Frontier*. Harper Collins, 1993. <http://www.well.com/user/hlr/vcbook/index.html>.
  5. Hagel III, John and Arthur Armstrong. *Net Gain: Expanding Markets Through Virtual Communities*. Harvard Business School Press, 1997. <http://www.hbsp.harvard.edu/groups/press/book/netgain/>
  6. See data about growth of Internet itself at <http://www.nw.com/> ; and data on sales volumes at <http://www.minds.com/cgi-bin/EMPane.cgi?c=44&t=29&q>.
  7. These attempts range from giants' joint ventures as between Microsoft and Barclays to specific projects such as cybercash, e-cash, etc. See survey at <http://www.transaction.net/payment>.
  8. E.g., the Global Village Bank (<http://www.gvb.org>) or Global Resource Bank (<http://www.globalresourcebank.com/>).
  9. Some internet payment systems are backed by real commodities such as <http://www.e-gold.com>, backed on precious metals; and <http://www.monrobey.com>, backed by real estate.
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