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Feature

Making Money for Business: Currencies, Profit, and Long-Term Thinking

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Delmar Strickland (left) of Little Rock, Arkansas, buys corn from Carpenter's Produce during Little Rock's biweekly farmers' market. Just as farmers' markets link consumers directly to producers, new currency innovations allow small businesses to deal directly with their suppliers, eliminating the need for middlemen and building capital for small businesses.

In Brief

Businesses have tended to leave the question of how the monetary system works to the government, central banks, and the banking system. Yet in doing so they miss the opportunity to solve key monetary and financial problems that cause real heartburn in times of economic downturn—leading to layoffs, bankruptcies, and cascading economic crises.

Small- and medium-sized businesses provide between 65 and 95 percent of private jobs worldwide. Their main challenge is access to working capital, which is crucial for job maintenance and creation. When credit lines get prohibitively expensive or are pulled back, as is the case today, the jobs evaporate.

A financial innovation—the Commercial Credit Circuit (C3)—provides critical working capital for small- and medium-sized businesses and already operates in several countries. It represents a substantial improvement on commercial barter by making its business-to-business (B2B) currency convertible into official national currency.

This article also discusses how inventory receipts and storage costs for commodities and services could form the basis of a new international planning and trading currency, called the Terra. Multinational companies that produce or use commodities and international services could establish the value of the Terra by creating a standardized basket of the most important commodities and services in global trade (e.g., oil, wheat, copper, carbon credits, or container shipping services). Among the benefits of such a system would be that it could make it profitable for multinational businesses to think long-term, and also would contribute to stabilizing the world's business cycle.

Note: This piece includes an excerpt from the authors' new book *Creating Wealth: Growing Local Economies with Local Currencies* (New Society Publishers, 2011).

The financial meltdown of 2008 highlighted the role that banking systems play in the world economy, bringing financial and monetary instability into focus as a driver of collapse. Not since the Great Depression of the 1930s have so many people been aware of how banks make the system work—or don't.

But even without a financial crisis, working capital is a problem, particularly for small- and medium-sized enterprises. Suppliers pressure smaller businesses for prompt payments, say within 30 days, while they grant their larger customers 90 or more days to pay. This becomes a deadly

cash-flow trap for smaller businesses whenever banks refuse to provide bridge financing or do so at a steep cost through high interest rates or punitive collateral requirements. This problem has become more critical in developed countries with the impact of the 2008 financial crisis, but it has long been endemic in developing countries.

Commercial Barter

When money is not available at all, an old option has been barter. Barter is one of the oldest exchange mechanisms in history. It is an exchange of goods or services without any standard medium of exchange. "Commercial barter" clubs or businesses typically use an internal currency as a standard medium of exchange, and so calling this "barter" is technically a misnomer. This article uses the "commercial barter" terminology because this label has become common practice, particularly in Anglo-Saxon countries.

Like individuals, businesses, too, can have a cash-flow shortage but a surplus of goods. But old-fashioned barter isn't convenient when one tries to pay in corn, or pigs, or saddle shoes. And doing so might limit what a business can purchase, because a barter exchange requires that the needs and resources of two parties match. The shoelace supplier probably doesn't want a warehouse full of shoes.

In 1934, a small group of business owners in Switzerland convened to talk about their troubles. It didn't take long before they realized that one of them needed a credit line from the bank to pay a supplier. That supplier in turn needed the same kind of credit line for similar purposes. They decided to work together to create a mutual credit system, where instead of borrowing money from banks they issued credits and debits to each other at the moment of an exchange to keep production going and, at the end, it would all balance out.

Needless to say, the banks did not like the idea, and they tried to stop the new currency, called the WIR, in its tracks. (WIR is an abbreviation of the German *Wirtschaftsring*, or "economic circle"—but it also means "we".) Nevertheless, the WIR survived. The WIR system evolved into a full-scale cooperative bank operating with two currencies: it manages and lends in both WIR and Swiss francs. These two currencies are equal in value but are not convertible into each other.

Key Concepts

- **Businesses can protect themselves from economic downturns and financial instability by taking a small part of the monetary system into their own hands.**
- **Small- and medium-sized enterprises can use Commercial Credit Circuits (C3s), a significant improvement on commercial barter, to supplement the money they already use to trade with other businesses.**
- **Large multinationals can use a standardized international barter system as a global currency that would be robust, inflation resistant, fully convertible into national currencies, and a systemic stabilizing force for the global economy.**
- **These types of monetary initiatives can facilitate large-scale economic and social change. Conventional money is not a neutral means of exchange. Rather, it is a powerful force, almost invisible, driving short-term financial decision making and the growth imperative.**

Today, over 75 years later, the WIR Bank has grown into a major financial institution in Switzerland. Some 65,000 of the country's small- and medium-sized businesses—a quarter of the businesses in Switzerland—are members. Smaller enterprises make up 99.7 percent of companies in the country and provide jobs for 66.8 percent of the workforce. The total value of WIR traded in 2008 was over 1.58 billion U.S. dollars, and the WIR Bank issued 2.74 billion Swiss francs in loans during that same year.

Given that the WIR is not convertible into Swiss francs, a debt incurred in WIR needs to be compensated by a sale in WIR of a good or service to another member of the network.

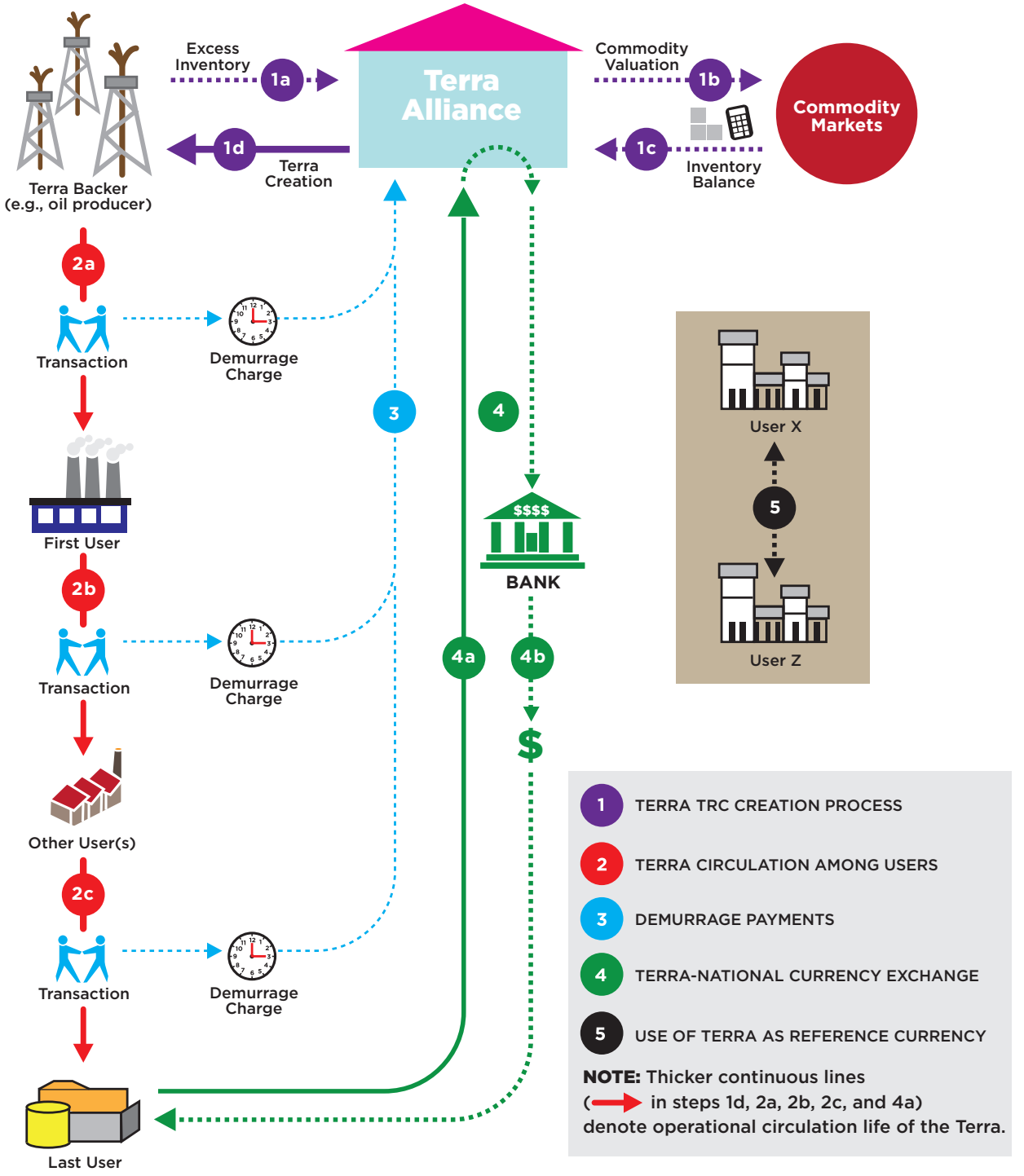
The Commercial Credit Circuit described next improves on that approach by making the complementary currency convertible into the conventional national currency.

The Commercial Credit Circuit

A Commercial Credit Circuit, or C3, is a financial innovation that resulted from work done in Brazil by Social Trade Organisation, a Dutch research and development NGO. Uruguay has implemented C3s on a national scale and is now accepting the C3 form of currency as payment for taxes.

Here's how it works. The process starts when one participating small- or medium-sized business gets insurance on an invoice or other payment claim. This insured invoice is then used to back a complementary currency—let's call it BusinessBucks—issued through a computerized transaction for the same amount as the invoice. The BusinessBucks are then used as liquid payment instruments within a business-to-business network. Each recipient of BusinessBucks can either cash them in for dollars, euros, yen, pesos—the conventional bank debt money—at the cost of paying the interest to the point the invoice matures, or the recipient can pass the BusinessBucks on, without cost, to pay its own suppliers. At the maturity date for the invoice, the corresponding amount gets paid in conventional money, either by the company to which the invoice was originally issued or, in case of default, by the insurance company that insured that invoice. Also, at the maturity date, all the BusinessBucks that were created on the basis of that invoice become convertible to conventional money at no interest cost.

TERRA TRADE REFERENCE CURRENCY MECHANISM



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The Terra is a global business-to-business currency, fully backed by a standardized basket of a dozen important commodities. Here's how it works: (1a) An oil producer with an excess inventory of 1 million barrels of oil sells that quantity to the Terra alliance; (1b and 1c) The Terra alliance sells some of that oil to increase its holdings of the other 11 component commodities; (1d) The alliance credits the Terra account of the producer with a quantity of Terra units equal to the current purchasing power of 1 million barrels of oil; (2a) The oil producer uses the Terras to buy an oil rig from a company willing to accept the Terras in trade; (2b) The rig supplier uses the Terras to buy components from its own supplier; (2c) The process continues, with the Terras circulating until redeemed; (3) The oil producer and other Terra users pay a demurrage charge when using the Terra based on how long the Terra was held in their accounts; (4a) Whenever Terras are redeemed, the final user is charged a 2 percent redemption fee; (4b) The Terra Alliance then sells the portion of its commodity holdings to which those Terras have claim, and pays the redeeming party in conventional currency; (5) Piggybackers simply use the Terra as a trade reference currency, pricing contracts in it but settling those contracts in an equivalent amount of another currency.

This process injects working capital into the C3 members' network at a substantially lower cost than what would otherwise be possible because the insurance costs less on an aggregate level than compounding interest from bank loans in a conventional credit system (in Uruguay, the insurance cost amounts to 1 percent of the invoice). Given that small- and medium-sized firms provide the vast majority of all private jobs, the C3 mechanism systemically contributes to the stability of employment and of the entire economy.

If governments, including regional or city governments, accept C3 currency in payment of taxes, this not only encourages all other businesses to accept C3 but also provides additional income to the government from transactions that wouldn't otherwise take place. Furthermore, that additional income becomes automatically available in conventional national currency at the maturity of the original invoice. Thus, accepting C3 units does not upset any existing procurement policies. Uruguay is the first country that has followed this strategy, accepting C3 units in payment of all fees and taxes.

The C3 approach is probably the most dependable way to systemically reduce unemployment, and accepting C3 units in payment of taxes is the most effective way for governments to support the spread of the C3 system. Furthermore, businesses with an account in the same regional network have an incentive to spend their balances with each other and thus further stimulate the regional economy. C3 provides a win-win environment for all participants and, as a corollary, also promotes other collaborative activities among regional businesses.

This win-win approach also includes the mainstream financial system. As the entire C3 process is fully computerized, it significantly streamlines lending and insurance administration and management for the insurance and loan providers. The cost to a small- or medium-sized business is lower than conventional financing, and the banking system makes more money because servicing small- and medium-sized firms becomes a low cost, low risk, and larger volume business for banks. This is because the credit lines in a C3 system are negotiated with the entire network, providing the financial sector with automatic risk diversification among the participants in that network.

A Global Business-to-Business Currency: The Terra

Monetary instability has become one of the leading concerns for international businesses. Currency risks are now typically greater than political risks (e.g., the possibility that a foreign government will nationalize the investment) or even market risks (e.g., the possibility that clients will not want the product). For several decades, international corporations have reported foreign-exchange risks as the most important risks of doing business internationally.[1]

The Terra system—built around a global business-to-business currency called the Terra— would provide a systemic solution to the foreign-exchange risks and simultaneously solve several other problems for society at large: (1) it would counteract the short-term thinking that is systemically introduced by the interest feature of conventional currencies; (2) it would reduce the compulsory growth imperative that interest generates; and (3) it would provide a countercyclical economic impulse that would contribute to stabilizing the world economy.

The Terra is designed as a complementary currency operating in parallel with conventional currencies like the dollar, euro, and yen. It would not replace them but rather would supplement their use with another trading mechanism that has a different structure. That structure involves the Terra, defined as the value of a standard basket of agreed-upon commodities that are most important for global trade. The Terra would be issued only electronically, as an inventory receipt for deposits of these commodities. The storage costs of the commodities that would back the Terra would be charged to the bearer of that currency, amounting to a demurrage charge (a negative interest rate). International corporations would voluntarily choose to use the Terra; there would be no requirement that they do so. But they would choose to use it because of its clear and measurable benefit to their bottom lines.

The Terra would be fully backed by a standardized basket of the most important commodities as well as some standardizable services traded in the global market—the Terra Basket. The concept here is similar to the fully backed gold standard, but for the Terra the backing would consist of not one single commodity but a dozen of the main international commodities, including gold. For example, 100 Terras could include one barrel of oil, five bushels of wheat, ten pounds of copper, three pounds of tin, 0.1 ounce of gold, ten carbon emissions rights, container cargo rates, and so on. Since the Terra would be fully backed by a physical inventory of commodities, it would be a secure currency, more robust than any national currency, and an inflation-resistant tool for valuing international contracts and exchanges.

The Terra would be issued electronically as an inventory receipt by the Terra Alliance, a nongovernmental initiative with an organizational structure open to all newcomers that meet preestablished criteria (organizationally similar to the Visa credit card system for financial institutions). Such inventory receipts would be issued for the value of the commodities sold to the Terra Alliance by producers or users of those commodities that are components of the Terra Basket. As a private initiative, this would not

require governmental negotiations or new international agreements. This is so because, from a legal and taxation viewpoint, the Terra would be simply a standardization of international barter (technically called "countertrade"), and tax legislation and reporting requirements for countertrade exist already in more than 200 nations around the world.

The real storage costs of the commodities that make up the Terra Basket would be paid by the bearer of the currency. The Terra would be what is called a "demurrage-charged" currency. A demurrage charge acts like a negative interest rate, incurring a cost over time to the holder of the currency. The cost for holding onto the Terra currency is estimated at 3.5 percent to 4 percent per year and would cover the costs incurred for storing the physical commodities included in the Terra Basket. This demurrage charge would ensure the currency's use mainly as a planning, contractual, and trading device, not as a store of value. The Terra would therefore always tend to circulate, rather than being hoarded to collect interest as with conventional money. It would thereby foster a higher volume of commercial exchange and investment wherever it circulates. In short, the Terra would fulfill only two of the three traditional monetary functions: as a unit of account and a medium of exchange, not as a store of value.

The Terra would be an inflation-resistant currency by its very design. Inflation is always defined as the changes in value of a standardized basket of goods and services. By selecting the appropriate commodities for the Terra Basket, the Terra would tend to be protected against global inflation. For instance, let us assume that oil represents 20 percent of the Terra Basket and that the price of oil doubles: the value of the Terra would then increase by 20 percent in terms of national currencies. Therefore a contract whose unit of account is expressed in Terras would automatically adjust in part to the higher cost of energy in the global system.

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Uruguayan government officials, including Uruguay's minister of the interior, Eduardo Bonomi (far left), and Angel Peñaloza (center), director of Banco Republica, the largest bank in Uruguay, gather at the launch of the Commercial Credit Circuit (C3) in Uruguay. The C3 is a financial innovation that makes business-to-business (B2B) currency convertible into official national currency.

The Terra would benefit the world economy and humanity as a whole in two ways: (1) it would promote long-term sustainability, and (2) it would counteract the boom-and-bust business cycle.

As long as businesses are focused on short-term profits, chances of long-term sustainability are minimal. And inevitably, everyday people will end up paying for a failure in sustainable development. In contrast, the Terra, with its demurrage feature, would make long-term thinking profitable and, therefore, long-term sustainability more likely. Indeed, the demurrage feature of the Terra would provide a systematic financial motivation to realign financial interests with long-term concerns, in direct contrast to what happens today with conventional national currencies. The discount rate for conventional national currencies results in part from the positive interest rates charged on the debt-based issuance of the money itself. The discounting of the future with a positive interest rate systematically emphasizes short-term gains at the expense of long-term benefits. The same transaction flow discounted with a demurrage-charged currency produces the exact opposite effect: future cash flows become more important than those in the immediate future. The use of the Terra for planning and contractual purposes would therefore reduce the conflict that currently prevails between the stockholder's financial priorities and the long-term priorities of humanity as a whole.

The second benefit of the Terra to the world economy is that it would counteract the typical boom and bust of the business cycle, creating a more dependable economic environment. This would translate into more reliable employment opportunities and less job instability. From a business viewpoint, it would also improve most investment decisions, as the business cycle tends to leave a corporation over- or underinvested in production capacities.

The reason for this automatic countercyclical effect is the following. When the business cycle is weakening, corporations customarily have an excess of inventory and a need for credit. With the Terra system in place, the excess inventories could be sold to the Terra Alliance, which would then place these inventories into storage. The Terra Alliance would pay for these inventories in Terras, thus providing corporations with more liquidity and a means of payment (typically less readily available in this part of a business cycle).

These corporations would immediately spend the Terras to pay their suppliers, for example, so as to avoid the demurrage charges. Suppliers, in turn, would have a similar incentive to pass on the demurrage-charged Terras as a medium of payment. The spread of this currency (with its built-in incentive to circulate) would automatically activate the economy at this point in the business cycle.

On the contrary, when the business cycle is in a boom period, demand for raw materials goes up and both suppliers and corporations have an increased need for inventory. The Terras would then be cashed in with the Terra Alliance for a 2 percent transaction fee, and the now needed inventories would be taken out of storage and delivered to the respective commodity markets to obtain the conventional currency required. This would also reduce the amount of Terras in circulation when the business cycle is at its maximum, counteracting an inflationary boom phase.

Such automatic countercyclical behavior isn't just theory. Commercial barter systems—of which the Terra system is a variant—tend to stabilize the business cycle and the overall economy. Economist James Stodder's detailed analysis on the WIR system provides the relevant evidence.[2,3]

Systemic Implications of Different Currency Designs

One implicit hypothesis in economic theory is that money is "value neutral." It is assumed that the type of money we use doesn't affect the kind of transactions performed, the time horizon of investments, or the relationships among its users. Furthermore, the architecture of our monetary system is ignored—and it is therefore considered an unchangeable "given." In fact, the money system is the most powerful—and the most overlooked—leverage point for large-scale change in our contemporary society. It is the metasystem that influences human actions and choices on a large scale, because it shapes the fundamental economic incentives of a society. It thereby affects the behaviors of all social institutions—including corporations, governments, civil society—and of the ordinary citizen.

Today's money system enforces a monopoly of bank-debt money, in which our "national" monies are in fact created through borrowing (with interest) from banks by governments, businesses, and individuals. Governments enforce this monopoly by requiring that all taxes are payable only in this particular privately issued bank-debt currency. This gives huge decision-making power to the banking system. The problem is that these decisions tend to amplify the business cycle.

When the economy is good—in a sector, region, or country—banks tend to make more money available for that particular sector, region, or country, potentially pushing the corresponding economy into an unsustainable bubble. When the economy is turning down, banks reduce credit availability, which amplifies the downturn as well. A textbook case of this process is the U.S. real estate market over the past decade. But boom-and-bust cycles have been repeated in every time period since the establishment of our modern money system in the seventeenth century.

Similarly, short-termism is not a feature of human nature, as is often assumed. Civilizations that had different money systems than ours, such as dynastic Egypt or European countries in the central Middle Ages, spontaneously demonstrated the capacity to make very long-term investments. In contrast, interest-bearing currency will change any rational decision maker into a short-term thinker.

The C3 and Terra initiatives proposed in this article are systemic solutions to both the cyclical nature of our money system and the destructive and unsustainable short-termism of business and economic planning. Other examples of using complementary currencies for a variety of purposes are discussed in our book *Creating Wealth: Growing Local Economies with Local Currencies* and on the Web.[4-7] Rethinking our monetary system turns out to be a necessary condition, albeit not a sufficient one, to change behaviors on a large enough scale to create a sustainable world. S

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