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Interview with monetary specialist Bernard Lietaer on banks, the crisis and creative solutions

Belgian monetary specialist Bernard Lietaer sees the financial crisis as a potential disaster, but also as an opportunity. The opportunity to create complementary currencies needed to solve the problems of our time. Moreover, this is what is ongoing for the moment, from Brasil over Germany and Japan, to Flanders.

ALMA DE WALSCHE AND JOHN VANDAELE, TRANSLATION BY MACHTELD BOUSSEMAERE • 1 APRIL 2009

Trees as savings, money that brings people together... Bernard Lietaer is a man who is not afraid of thinking out of the box. He is not surprised that the world is suffering from a monetary crisis. In his book “The money of the future” (1999) he already wrote that the crises of the nineties were not just accidents, but ‘writings on the wall of a systematic imbalance of the official monetary system’. He defines money as ‘an agreement in a society to use something as a means to pay with’. Lietaer states that money is the oldest information system of mankind: ‘Money creates unified information spaces to which people adjust their thoughts and behaviour.’

Different kinds of currencies can motivate people in different ways and thus shape society. Our current money has taken on the form of ‘credits’, created by banks who ask interests for doing this. Lietaer shows that these interests inevitably lead to a competition between people, the need for economic growth and the concentration of wealth. This is because this profit is money that has not been created, leading the borrower to trying to take it from other citizens, in turn causing the need for competition and growth. Although there are some advantages, Lietaer believes that the problems of our times – an ageing population, the environmental crisis, the instability of money and unemployment – can not be solved by this kind of money. In order to do so, we should create complementary currencies, he says.

Lietaer knows the financial sector by heart: He was one of the designers of the

ecu, the predecessor of the euro. He was also a successful stock marketeer and professor of International Finances at the Catholic University of Leuven and in the U.S. He also advised multinationals and developing countries on four different continents. In the meantime his book has been translated into 18 languages, but it has not been brought into practise. He is not astonished by that: 'History shows that monetary systems have never been changed in a preventive way. They only get changed when problems rise. If the dollar collapses – and that is only a matter of time – things will change.'

How important is trust for the well-functioning of money?

Bernard Lietaer: Trust is crucial. When you accept a banknote as payment, then you believe that others will also trust you when you pay with it. So basically you believe in someone else's belief. That is really vulnerable. This vulnerability increased hugely after changing to flexible exchange rates in the seventies. From then on the value of a currency has been determined by the money markets. The next step was the decrease of rules about what you could and could not do with money. The idea was that the markets would regulate themselves and as such stabilize the system. Now we know that assumption was wrong. Our financial system is in fact structurally unstable.

How should this continue?

Bernard Lietaer: I am quite pessimistic. Banks will try to make their balances sound again and will consequently allow less credit. For years companies will have a hard time acquiring credits. We should expect an unprecedented difficult period of at least a decade. At the heart of the problem lies the huge indebtedness of the US. It has mounted up to 310 percent of the country's GDP, which is more than during the Great Depression. Long ago, Von Mises said that there are just no means to fight the collapse of a boom based on debts.

Are we not trying to prevent such a collapse at the moment?

Bernard Lietaer: States have made huge promises to save the bank system. In the United States this concerns 4300 billion dollar, more than what they spent on the Second World War. The governments of the EU guaranteed 1827 billion dollar. Governments have weakened themselves like never before to save the bank system. The Belgian government for example guarantees a capital worth 528 percent of the gdp for the three most important banks. For Switzerland that amounts up to 773 percent. Iceland already collapsed. In the thirties governments learned that they could not let banks go bankrupt because this causes a downfall of the economy. The question is: what

happens when it turns out that governments do not have enough means to save the financial institutions?

Is a re-regulation of the financial sector the solution?

Bernard Lietaer: That is politically inevitable. I am in favor of this as well, but I do not expect much of it. Banks and regulators have been playing games ever since creating money is done by banks. Regulation prevents that the same abuses happen over and over again, but after a while new ways to escape these rules are found, leading to new crises.

What is your opinion on the rescue plans?

Bernard Lietaer: Injecting money straight into the banks is more efficient than the original US plan to buy the bad financial products of the banks. Because banks create money, an injection of one billion euro can be translated into a creation of money of at least 10 billion. A lot of banks used much bigger leverage. Deutsche Bank has a leverage of 83. But that approach does not prevent the real economy of getting hit by the financial crisis in a second wave. This creates a moral dilemma because it rewards the financial institutions for their bad policies and thus stimulates them to behave irresponsible in the future again.

How to deal with the moral hazard?

Bernard Lietaer: Contrary to what many believe, since 300 years our money hasn't been created by governments but by banks. The governments make up for only 5 to 10 percent of the money creation through the central banks. When the banksector abuses this privilege, it can be taken from them: money is a public good and the right to release legal means of payment belongs, at least theoretically, to governments. In a monetary system run by governments, they would create money without having to pay interests. Banks would become only the mediators of the money deposited on their accounts. This would surely ban all bank crises from the world and also allow governments to adopt Keynesian stimulation policies more easily because no interests need to be payed for government loans.

Then why doesn't this happen?

Bernard Lietaer: The main reason is the lobby of the financial sector. If banks would lose the right to create money, they would be hit in the very heart of their current business model. People will however keep raising the question of nationalising the money creation.

You're not in favor of this idea?

Bernard Lietaer: No, I am not because although this might prevent bank crises, it will not prevent monetary crises. The system of our monetary scheme is by definition unstable. What would happen if you would replace all rice varieties in the world by one very productive variety? You would probably gain enormous harvests, but it is predictable that the system will collapse when something happens to that one variety. The same is true for currencies.

Why?

Bernard Lietaer: Research of ecosystems shows that their sustainability does not only depend on the efficiency with which they process energy or matter, but also on their diversity and interconnectivity. If this is significant, a system is more capable of recovering from a distortion. This is true for all complex systems with a similar structure. In an ecosystem, it is biomass that is flowing through the network, in an electric network these are electrons and in an economy this is money. Our international monetary system is extremely efficient: every day some 3000 billion dollar of stocks are exchanged. But now it also turns out to be very fragile. The solution can be a surprise to anyone who thinks in a conventional way: one should allow more diversity in the use of exchange instruments. That is why I suggest the creation of complementary currencies. In times of crises of the official monetary system, they can soften the shock because they can take over part of the activities. Moreover they are in a better position to meet certain societal needs.

Could you make this more concrete: What should happen next?

Bernard Lietaer: To prevent a trickle-down effect of bankruptcies and layoffs, companies should organise a reciprocal credit system on the for them best level as soon as possible. The Swiss Wir is an example of a currency that is fit to meet company needs. The currency was founded in the thirties when companies had a hard time getting funds. One in five Swiss SME's is a member of this. Those who sell something, earn a credit balance in Wir which is kept track of in the central unit in Basel. With this credit balance, the seller in his turn can buy things in the Wir-network. Last year 1.7 billion Swiss francs have been converted to Wir like this. Macro-economic research shows that the volume in Wir automatically expands when bank credits are harder to get hold of. It also diminishes spontaneously when the activity in the 'official' economy grows. The Wir acts as a buffer in times of crisis.

Could currencies also help dealing with the problem of the ageing population?

Bernard Lietaer: The Japanese fureai kippu – caring relation notes – help

solving the consequences of the ageing population. Neighbours can take care of elderly people for their daily needs and this way obtain fureai kippu, expressed in numbers of hours. They can save them until they need them themselves or they could send them to their parents or other relatives in Japan with the same needs. This kind of currency stimulates the cohesion between people.

A regional currency could meet regional needs?

Bernard Lietaer: In Brazil, tens of local currencies appear on the market. In the German language area 63 regional currencies are being launched. Thirty of them are already operational. In the Austrian Vorarlberg the Talente-Tauschkreis links 1500 participants offering their talents – repairing cars, growing potatoes, nitting... Work for which they are compensated in the local currency which is accepted as payment in hundreds of shops. Local currencies reinforce contacts between people and use the talents present. There are no interest rates on these currencies. Currencies are motivators. If you want currencies that stimulate cycling or recycling, then you need to create them. I am working on a savings system that is not vulnerable to inflation. The capital exists of trees that grow 5 to 7 percent per year. Eighty percent of the poorest people depend at least partly on forests. But there is a huge deforestation, which is disastrous for the climate. If the trees represent a value for the local population, it is very much in their interest to protect them.

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