**Moral Money and Finance: A Local Nested Economy that Works for Us and the Earth, Not Us and the Earth Working for Money**
**Chapter 1**

by Paul Krumm

## Caveat

*We have to realize that we are all enmeshed in the present money system, which makes it difficult to see it as it is. It's like the air we breathe. Because those of us who are not on the edge also benefit, through investments and unearned income, its structure is justified in our minds.* ***Let the reader beware. The present analysis gores sacred cows.***

## Basic money concepts

What is Money? We use it all the time in trade, but seldom think about what it is. The best definition that I have found is that of Bernard Lietaer, a prominent Belgian economist, who developed the transition mechanism from the individual European money systems to the Euro. His definition is:

"Money is an agreement within a community to use something as a medium of exchange."

*Money is an agreement;information, not physical stuff.*

Whether money is *represented by* cattle or cowry shells, whether it be tally sticks, gold, silver, paper money, or simply numbers in an accounting system like the great majority of our current money, it is its *symbolic accounting information* that counts.

What does this symbolic accounting information represent? It is the *willingness of its users to trade the results of their time and energy for the time and effort of others.* Each person does what they are able and have learned to do, or can learn to do, in trade with others in their community.

Money simply formalizes informal exchange as the community grows larger and more complex. It makes possible keeping track of each person or group's economic contributions and consumption in a complex economy. Unlike barter, money also makes possible transactions between multiple traders.

In addition, money allows for flexibility in the timing of transactions. It keeps an accurate accounting of who has contributed how much, and who owes how much over time. In so doing it *quantifies commitments between its users*. It is trust in making and keeping commitments to balance budgets (production and consumption) that allows all money systems, including our own, to work.

*To summarize: Money is the name we give to accounting numbers that measure contributions and consumption in the economy. Money relies on trust in the reliability and fairness of the accounting system structure, and trustworthiness on the part of its creators and its users to keep their commitments, for its successful operation.*

## Simple money

Let us make our inquiry into money concrete with a simple example of how it can operate. To model this example we will extend the way of the gift economy[1], that existed (and still exists) in 'primitive' communities.

To quantify the gift economy, we create a formal system of balanced trade. In this simple money system, all market group members start out with a zero balance in their accounts. So all transactions don't have to be simultaneous, balances revolve around zero, both plus and minus.

Having the system be open source, not for profit, and taking the form of a network, rather than a centralized system of issue, makes money a commons, rather than an authority centered institution. It makes its structure consistent with the values of democracy; cooperation, justice, local control and local management. In this way we mimic the reciprocity of the gifting economy in the structure of money.

In operation, think of it as using a kind of Blockchain, or better yet a Holochain[2] credit/debit system. As noted above, in this distributed accounting system, everyone starts out with a zero balance in their account. If some person or group (lets call them 'A') buys something, say food, their account gets a negative entry. Person or group 'B' providing that food gets a positive entry. *Those entries represent the creation of money*.

Buyer 'A's negative entry represents a *commitment* to provide something for someone else to bring their balance back toward zero. Seller 'B's positive entry represents a *claim on the commitment* of other community members for what they might need or want.

*The concepts of commitment, and claims on commitment are pivotal to the operation of all money systems. They are the reason that trust is necessary in its operation. Commitment and claims on commitment also relate to the concept of capital, which we will discuss below.*

## Money relationships

In this paper, we will call traders prosumers to acknowledge that there are two sides of a money trade, the producer side, and the consumer side. So in our

1 Marcel Mauss, The Gift, W. W.Norton, 1990, New York, ISBN 0-393-30698-4

2 Holochain is an offshoot of Ceptr developed by The MetaCurrency Project. Instead of being *coin based* as blockchain systems like BitCoin are, it is *user based*. It uses a distributed hash table and fellow users, instead of miners, to organize and verify the authenticity of transactions, a 'do it yourself' alternative to mining for authenticity verification. One advantage of the HoloChain is that it requires much less memory than a BlockChain app, and thus can be run on hand held devices. As of early October 2017 the code for currency apps is being completed and verified. The HoloChain is also useful for distributed collaborative communication, and confirmation of reputation, among other things.

simple money system, we acknowledge that market group members are integrated persons rather than only consumers.  Defining people on the street as only consumers, as is done today, disempowers us, ignoring our contributions to, and leverage on, the economy.

Users of simple money make the decisions about what to create our money for, balancing individual needs with community needs, valuing cooperation, compassion and justice rather than creating larger balances.  Competition is for quality instead of profit.  The idea is to have enough, not more.

Democratic money is an example of applying what I call the rights/responsibility equation, a basic measure of morality.  In a democracy, the more rights (freedom) we the people have, the more responsibility we each have toward our fellows and to the earth that sustains our lives.  If democracy is to work, this relationship between freedom and responsibility must be owned and respected. Operating our own mutual money system for our trade brings the balancing of rights and responsibilities together in our daily relationships.

Keeping balances close to zero maintains a situation where everybody is keeping their commitments, and living up to their social contracts. Those of us in the community who are able, are expected to contribute, and those who are not able, or not in a position to contribute in the money economy, can trust the community to take care of their needs.

In our simple money system, keeping all prosumers' balances close to zero requires some kind of mechanism, so that trust can be maintained.  If transactions create a negative or positive balance in a prosumer's account *greater than what they have agreed on with their peers (the rest of us)* automatic stops can be put on them, just like with our current credit and debit cards.

Such a system works best in a community small enough that it's users know who each other are.  Scaling the system can be done by multiplication and connection of local groups, rather than by 'biggerization'.  This isn't a money accounting system created by some central authority.  This is a money system that is created by us in our own communities for our own use.

As our local communities gain trust between themselves, they can consider import-export trade, and commitments together between communities for larger projects or specialty goods/services.  This trade is facilitated by the use of the same rules of money creation in all local groups.  Reed's law of group-forming networks applies to this structure.

There is no need to manage the amount of money in circulation in a simple money system, as money is automatically created as needed, and zeroed out when balances are brought back toward zero.  Some examples of existing efforts that include at least some the principles of simple money are Time Dollars, the Swiss WIR, and Mutual Credit systems.  Simple money is an example of a Mutual Credit system.

### Money capital in the simple system

There are at least four classes of capital; money capital, natural capital, intellectual capital and human capital.  Here we will address money capital, which is the grease that oils the economy and facilitates the development of the other kinds of capital.  Natural and intellectual capital will be discussed in chapter 3. Human capital is the energy we trade.

In simple money, capital is seen for what it is in any money system. *Money capital is a claim on the commitment of any/all members of the market community.*

Small claims and commitments are simply a part of the transaction-clearing operation of the money system.  However if a person or group wants to have a large positive balance (a large claim on commitment, in other words, capital) to buy or do something in the simple-money context, they do that by getting permission from their fellow prosumers - the rest of us who will hold the commitment on their claim.

The rest of us must make a decision based on the value of the proposed purchase or investment to the borrower and the community; the rights/responsibility equation in action.  After all, we will be left holding the bag if they fail, and will all gain if they are successful.  If a community (no matter its size, local to global) agrees on the utility of a project, its members commit themselves to its completion, creating the capital needed.  No outside or minority authority is necessary or appropriate.  Terms of repayment of the commitment are agreed upon by those involved.

Alternatively we, the community, can express our willingness to support someone or some group without repayment, as in the gifting community, crowdfunding their aid by committing ourselves to them.  An example might be aiding a local family that lost their home in a fire.  Taxes also fit into this category *if* their use is democratically determined.

This conceptualization of capital is fundamentally different than current thinking as exemplified in Victor and Jackson.  "Investment is the process of setting aside income in the present in order to maintain, protect, and enhance the assets from which future prosperity will flow."  These thinkers have not recognized that *the function of money capital as commitment* is more basic than whether it is a *result* of savings, or of the creation of money by fiat out of nothing, which we will discuss later.  *They, as we all do, see all savings totally as personal gain, rather than at least partially an addition to the commons.*  We will further discuss savings and commons in chapter 3.

Operation of a simple money system requires learning the processes of community decision making.  It requires studying and practicing sociocracy, participatory budgeting, and other community decision-making processes.

In the next chapter, we will contrast simple money and its results with our present money system and other alternatives that have been proposed.