

# The Liquidity Network

1. Feasta is making a determined effort to set up a system that allows participants to exchange goods and services with each other without anyone going into debt. Although our system will operate in parallel with the existing money system, it will not be a money system (See Note 1). The units used within our system will be units of measure analogous to kilos or metres. Like these measures, they will have no intrinsic value and will only operate as a counting device to give participants a way of comparing and expressing the value of the goods and services being exchanged and ensuring that some participants do not take more value from the system than they put in. Participants will not own the units in their account at any time.
2. The new system is urgently needed because the current debt-based money creation system is failing and, in any case, is unsuited to a world in which the total value of trade being done in a year is more likely to contract than expand. If trading in a contracting economy is to stabilise at a level which at least allows basic needs to be met, the introduction of a new exchange system which is not based on the continued willingness of people to go into debt is required.
3. The new exchange system will be owned and controlled by the participants as it is they who give its units their value. It is envisaged that the users will elect a management committee which will operate under a trust deed setting out the basis on which the system is to be run. It is also envisaged that the management committee will hire a contractor to operate the system from day to day or, if the commercial banks become involved, pay a fee for the use of their systems.
4. As the system's aim is to give participants the liquidity they need to be able to trade with each other, it is to be called the Liquidity Network. Its units are to be called "quid".
5. The system could begin in two ways. One would be to cater initially for small- and medium-sized businesses and to open to private individuals later on. This course will be adopted if it proves impossible to involve the commercial banks and/or government in the project. In that case, firms joining the system would be asked to give the names of the companies from which they expected to earn quid and those from whom they expected to buy in quid. They would then be given a float based on the amount of business they did with the companies in the previous year and the timing and lumpiness of those transactions.
6. If the commercial banks agree to operate the system in parallel with their system for euros, the public could be invited to open accounts right away. A decision would then have to be made about the proportion of the initial issue of quid that went to the public. We envisage many of the personal transfers of quid would be made by mobile phone.
7. The velocity of circulation in each account will be monitored by the system's software and, if an account's velocity is tending to rise, more quid will be assigned to that account. If the velocity is falling, quid will be removed. Accountholders will be provided with information so that they can know when to expect quid to be added or removed. The overall number of quid in the system will be adjusted each month to keep them scarce in relation to the total amount of trading going on and

thus maintain their value.

8. Quid must not be used for capital investment. Funding for that must be sought in the conventional money system. The network will provide working capital rather than investment capital.
9. No credit will be extended in the system. Accounts will not be allowed to go into deficit – floats will always be generous enough to prevent this provided trading is reasonably managed. If a business is growing, or plans to use quid for more purchases, it can ask for a bigger float. Credit will be avoided in the following way. A participant dispatching goods or providing services to another member of the network will issue an invoice immediately the goods are dispatched or the services performed and enter the charge against the customer's account in the way hotels sometimes do with credit cards to ensure that their bill will be paid. The quid involved will be placed in escrow and will no longer be available to the accountholder for other trades. When the goods have arrived and been checked, the recipient will notify the system that the sum held in escrow should be released to the supplier's account.
10. Even if we wished to do so, it would be impossible to prevent an exchange rate developing between the quid and conventional currencies. The Network operators will not sell quid for euros or euros for quid but some participants undoubtedly will. There will be no target exchange rate between the quid and the euro although for the first few months, the number of quid in the system will be managed so that the price of a quid is roughly one euro.
11. The Network will charge participants a non-returnable fee in euros when they join to cover setting-up and promotional costs. Thereafter members will pay a small monthly charge in euros to cover the system's costs that cannot be covered in quid and also, in quid, a percentage of their monthly turnover. The management committee will set these charges. Inactive accounts on which the euro fee is not being paid will be closed.
12. If an account is being closed, the participant must return the net amount of quid issued to it during its life. Euro account fees will continue to accumulate until this is done. If unpaid account fees reach a set level, the committee will buy the quid needed to close the account and will pursue the accountholder for the total amount of euros involved through the courts. (See Note 2)
13. Taxes on transactions in quid will have to be calculated in quid and then converted into euros at whatever is the rate on the day of the transaction and invoiced separately in euros. This is because if participants charged the taxes in quid and then bought euros with them when the tax was due to be paid, the purchases would tend to greatly reduce the value of the quid in relation to the euro as there is unlikely to be as big a flow of euros into the system as quids to be moved out
14. We will adapt the open-source Cyclos software for the system. We will make our ideas and software freely available at all stages so that others have the chance to use and adapt them. See Note 3.

## **How the work is organised**

The group has divided itself into three working parties. These work as follows:

1. **Party One** is adapting the Cyclos software so that it can be used by small and medium-sized businesses in the way we want, which is not quite the way STRO have set it up. In particular, we want the software to track the velocity of circulation in each account in a way the account-holder can follow, so that they know when they are crossing into an area in which their liquidity will be increased or reduced and can act accordingly. These thresholds need to be adjustable, so that if, say, trading in the whole system is slowing down, the lower threshold on each account is raised so that quid can be taken from the slowest accounts. A warning that the threshold had been raised would have to be sent out to accountholders a number of weeks before quid were taken from them so that they could either spend quid to get their velocity up or, if it was permitted, lend quid to another participant. Software would also be needed to process a participant's previous year's trading information so that the amount of liquidity to which they were entitled could be worked out. Once this software had been developed, the party would carry out simulations involving actual business people to be sure that it worked well and was not open to being "gamed".
2. **Party Two** is developing the mobile phone software for use for smaller transactions..
3. **Party Three** handles the legal and governance aspects of the project, liaises with potential users and the media, raises funds, plans the launch, identifies suitable managers/contractors to run the operation etc.

Each party is self-organising and chooses its own co-ordinator.

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#### **Note 1**

Quid will not be "money" in a strict (ie legal) sense. One dictionary requires money to be legal tender that is, a form of payment that, by law, cannot be refused in settlement of a debt (ie the debtor cannot successfully be sued for non-payment). Quid will not be legal tender. Wikipedia defines money as "anything that is generally accepted as payment for goods and services and repayment of debts." Quid will not be "generally accepted" as only accountholders will be able to take and use it. Nor will it be used for the repayment of debts, since no debts will arise in the proposed system.

The system will be designed so that the Network is not a credit institution as defined by the EU as this would allow it to stay outside the mass of regulations governing such institutions. It should not be difficult to avoid being a credit institution as Directive 2000/12/EC(5) says "credit institution" shall mean "an undertaking whose business is to receive deposits or other repayable funds from the public and to grant credits for its own account" and our system would neither receive deposits from the public nor grant itself credit. It will not be possible to purchase quid from the system. (Such a purchase might count as a deposit) Nor will quid be cashable. If someone had more quid in their account than had been issued to them during its operation when they came to close it, they would not be paid anything for them by the system. If they wished to get value for them they would have to use them to buy goods and services from other participants.

We must also avoid the Liquidity Network being classified as an "electronic money

institution" when private individuals begin to operate accounts and use their mobile phones to transfer quid. This is because, amongst other impediments, the Network would have to have €1m. capital under Article 4 of Directive 2000/46/EC. However, the risk that the Network will be classified as such seems small because:

1. The Directive says that electronic money institutions have to be credit institutions and that "Member States shall prohibit persons or undertakings that are not credit institutions, as defined in Article 1, point 1, first subparagraph of Directive 2000/12/EC, from carrying on the business of issuing electronic money."

2. Quid fall outside the definition of electronic money. Electronic money is defined by the Directive as something which is

(i) stored on an electronic device;

(ii) issued on receipt of funds of an amount not less in value than the monetary value issued;

(iii) accepted as means of payment by undertakings other than the issuer.

Quid will meet criteria (i) and (iii) but not (ii) because they will not be issued in exchange for conventional money. All our units will be given into circulation. They will not be sold into use.

2. The Directive says that "electronic money can be considered an electronic surrogate for coins and banknotes, which is stored on an electronic device such as a chip card or computer memory and which is generally intended for the purpose of effecting electronic payments of limited amounts." Quid will replace more than notes and coins and be used for large transactions

3. The Directive says that "It is necessary for electronic money to be redeemable to ensure bearer confidence. Redeemability should always be understood to be at par value." Quid will not be redeemable, since no money will have been paid for them. They will not have a par value.

#### **Note 2.**

It is not strictly necessary for the Network to recover the quid it issued to participants who are closing their accounts. If the amount of trading going on in the system is increasing, the Network can simply issue fewer quid to the most active members to get the right amount in circulation. Similarly, it can withdraw more quid if total trading is going down. The recover requirement is primarily to create confidence, as participants will not like to see firms leaving taking with them more goods and services than they contributed while they were members. It will also discourage firms from joining with the intention of leaving again quite quickly after getting goods and services to the value of their float, although this is not likely to be a serious problem as it will take some work to become a member of the system. The best way to regard an unrecovered float might be the way the operators of a book club must regard those who join for the introductory offer and leave after fulfilling the minimum commitment – as an inescapable cost of building the business.

#### **Note 3.**

Some members of the group have expressed the view that the use of open-source software may make the system insecure because potential hackers will know how it operates.

Others dispute this, pointing out that the more good people who look at software, the better, and securer, it should be. Even if the latter view is wrong, using open source should not be a worry as the fact that quid only exist within our system makes it very secure as every transaction is recorded and movements of quid can be followed. Hackers would be ill-advised to try to divert payments to their own accounts because the theft could be traced and they could be prosecuted. Moreover, having only one "bank" in the system also means that runs can never develop as they could do if quid could be taken out of one bank and transferred to another.

**Note 4.**

We have had an e-mail discussion on whether the Network should allow participants to lend quid to each other. One advantage of doing so is that it would allow the Network to issue less liquidity to participants because, if one of them found themselves short of liquidity at a particular time, they could borrow quid from a participant who had decided to act as a quid lender. The use of this loan would increase the velocity of circulation in the borrower's account and help them qualify for an allocation of extra quid. Equally, someone whose velocity was slow could preserve their liquidity by pushing their velocity up by lending some of their surplus quid to the quid-lender. In short, the ability to borrow and lend quid would make the system more flexible and forgiving. This is a design feature which needs to be tested in a simulation before a final decision on its inclusion is made. There would be no danger of the quid-lenders creating quid themselves as they would only be able to lend quid that were actually in their accounts.