

# THE ECOLOGY OF MONEY

by Richard Douthwaite

## Foreword

by Bernard Lietaer

Four main benefits can be derived from reading Douthwaite's *Ecology of Money*:

1. He introduces much needed clarity in the domain of money. I like the simplicity of the six questions he uses to walk us through different money systems, a process which facilitates comparisons of the nature, advantages and disadvantages of each money system he describes.
2. He explores these different money systems using a terminology that lay people can understand. This is no minor achievement, as illustrated by economist John Kenneth Galbraith's quip that "The study of money, above all fields in economics, is the one in which complexity is used to disguise truth, or evade truth, not to reveal it."<sup>1</sup>
3. He forces us to think the unthinkable - the possibility that our familiar national currencies may actually be out-of-date in an age of globalization, information revolutions and planetary ecological hazards.
4. He presents some ideas for new money systems designed to help us with some of our biggest challenges of today.

In particular, two issues he addresses are highly relevant at this time:

- The need for a new balance between the global and the local economies;
- and the issue of carbon-energy efficiency.

Talking about small-scale local currencies in the middle of all the media buzz about globalization may sound parochial or marginal to some. It is not. Community rebuilding is not a contradiction with the trend towards a global civilization, but a necessary complement to it. Precisely because of the globalization trend, strengthening local community is becoming more important. Rather than argue from theory, I will contribute two case studies from Japan, clearly a globally oriented economy.

Japan has decided to introduce local currencies, complementary to the conventional national currency, to tackle two key problems which the West will be facing acutely soon - aging

populations and the need for new regional development strategies. Both examples illustrate Douthwaite's points.

Japan has one of the fastest aging populations of the developed world. By the year 2005, the population over 65 years of age will reach 18.5% of the total (a situation that Germany will face by 2006 the UK and France by 2016.)

A special currency called *Hureai Kippu* (literally “*Caring Relationship Tickets*”) has been created by a group of 300 non-profit organizations. The unit of account is an hour of service. The people providing the services can accumulate the credits in a “healthcare time savings account” from which they may draw when they need credits for themselves, for example if they get sick. These credits *complement* the normal healthcare insurance program payable in Yen, the conventional Japanese national currency. In addition, many prefer to transfer part or all of their *Hureai Kippu* credits to their parents who may live in another part of the country. Two private electronic clearing houses have sprung up to perform such transfers. One particularly important finding has emerged. Because they have experienced a higher quality of care in their relationships with care-givers, the elderly tend to prefer the services provided by people paid in *Hureai Kippu* over those paid with the conventional Yen.

The second application is potentially even more impressive. The Ministry of International Trade and Industry in Japan (MITI) has recently concluded that the future of Japan's development strategy will be based on “Silicon Valley” type specialized regional economies. And that the best tool to stimulate such regional development clusters are local “*eco-money*” systems. Four pilot projects have already tested this approach, and the results are convincing to the point that by end 1999 no less than forty such systems will be launched. Some of Japan's largest corporations (such as NTT and Oracle Japan) are involved in these experiments.

The point about these two examples is that theory is way behind practice in this domain. People are innovating in the monetary domain, and are obtaining demonstrably positive results from it, while the majority of the policy makers remain still unaware about the potential of monetary inventions to solve their problems. I would compare today's non-conventional money domain to aeronautics when the Wright Brothers took their first flights. The first airplane builders didn't know why their contraptions were flying, but fly they did. And it took the New York Times more than four years to even mention the event (and then only because the President of the US was witnessing a demonstration). Nevertheless, nobody questions that the aeronautical industry has changed forever our way of life on this planet.

Do I agree with all the ideas that are presented here? Even Douthwaite admits that he doesn't “expect everyone to agree with the conclusions he has reached”. For instance, although I agree with him on the importance of linking monetary issues to energy sustainability, I question the viability of the means he proposes. (Why not include his “Energy-Backed Currency Units” (ebcu) as part of a basket of commodities and services backing the currency - rather than being the exclusive backing of currency? This would dampen the effects of price instabilities of the ebcu due among other things to technological innovations in the supply of energy.)

I am also concerned with his benign view on inflation. Inflation has the positive effects Douthwaite mentions only if it occurs by surprise, i.e. has not been discounted by inflationary

expectations. In other words, building inflation into the system may just kill whatever usefulness it has.

However these disagreements pale in comparison with my wholehearted support of two of Douthwaite's key conclusions:

- Contrary to what most economists believe, money is not neutral, i.e. different money systems are now possible, and could make a dramatic difference in helping us with several of our most important challenges including ecological sustainability;
- “Only a widespread debate on the issues, by a well-informed public, will ensure that when changes are made [to the money system] they are along the right lines.” To paraphrase the line about war and the military, money is too important to be left only to bankers and economists...

As the public is remarkably ill-informed about the nature of our money system, as even most experts seem to believe that there is no choice, starting a debate about the effects of different money systems on society is a vital task. In this sense, reading Douthwaite's contribution may be particularly useful *because* it is a controversial one.

1 Galbraith, J.K. *Money: Whence it came, Where it went* (Boston: Houghton Muffin Co., 1975) pg 5.