

## **SECTION 3:**

# **HOW LETS ADDRESSES PROBLEMS IN A CONVENTIONAL ECONOMY**

## SECTION 3: HOW L.E.T.S. ADDRESSES PROBLEMS IN A CONVENTIONAL ECONOMY

L.E.T. Systems offer a number of ways of overcoming intractable community problems. In order to understand how this is so, it is first important to understand how a community economy operates.

### Problem 1: The Leaky Barrel of the Community Economy

Each individual person is like a "leaky barrel", where income is the liquid flowing into the barrel, expenditure is what flows out through different leaks, and one's savings are determined by the level of liquid in the barrel. (See Diagram 1)

## THE INDIVIDUAL



Diagram 1:

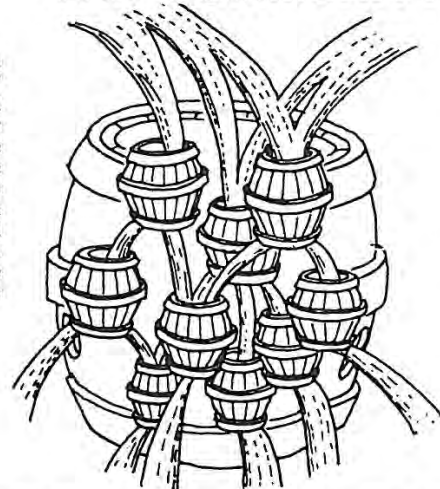
Our level of current savings is like the level of water in a leaky barrel. As income flows in to the top of the barrel, so our expenditure drains out of the bottom. The most important items of expenditure (food, clothing, shelter etc) are spent first, and thus drain from the bottom. What is left is our "disposable income", over which we have more choice and which drains from the side. Increased savings result from "plugging a hole" or capturing a flow and recycling the money which would otherwise drain out

Similarly a community is like a barrel full of barrels in which one of my leaks may comprise part of your income, and one of your leaks may be part of the income of someone else. This community barrel, like the individual barrels that comprise it, also has an income and an expenditure which is very difficult to keep balanced. (See Diagram 2)

## THE COMMUNITY

Diagram 2:

The Community as a whole is a larger system, where one person's expenditure may be part of another person's income. The "water" which flows into the community represents the value of goods and services "exported" to other communities, spending of tourists to your community, investment or loans from other communities, and the value of government spending (wages, goods purchased, or welfare spending). The "water" flowing out of the community represents goods and services imported, spending of tourists from your community in other communities, profits taken out by non-local enterprises and interest payments on local loans, and taxes to state and federal governments. Communities generally have little control of either the income or expenditure of their locality, or of how wealth circulates within their area.



The rules of conventional economics, for instance, favour and reward people who remove money from poorer communities and disadvantages investors who put money back into such communities.

Those who invest in any locality only do so only on the expectation that they will be able to extract more, by way of interest repayments, profits or sales than they put in, in wages, or costs of buildings or infrastructure. Many communities have become caught in a "no-win" situation. Visualising the situation diagrammatically clearly shows how individuals and communities, over the recent past, have been caught in a vice-like grip. (See Diagram 3)

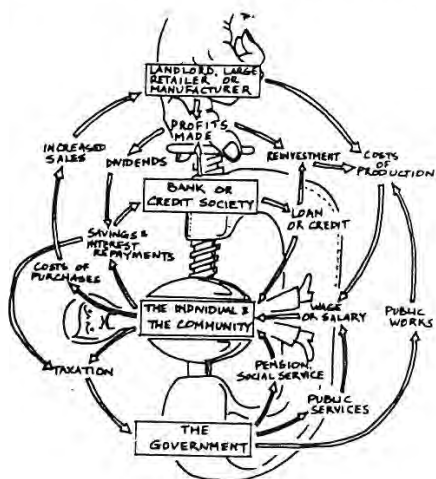


Diagram 3:

Communities, like individuals tend to form part of a larger system. Unfortunately, as a result of recent recessions and the growth of multinational corporations, the amount of "water" flowing out of many communities, in recent years, has exceeded the inflows. Loans, for instance, have to be repaid with interest; wages have not kept pace with the costs of purchases; and government spending on pensions and social services is limited by the amount of taxes governments can collect. No wonder that individuals and communities feel squeezed!

Furthermore, conventional money is taxed as it is exchanged. As taxes do not necessarily return to the community from which they are collected, this may comprise another "leak" to the already "leaky barrel" of the community economy. Thus for many communities the costs of their purchases, of taxation payments and the interest on credit often exceeds what they have received in wages and salaries, in pensions and social security benefits, and in loans. As a result, in most communities in Australia, and overseas, the amount of money leaving the community is greater than the amount of money entering the community. Communities are generally growing poorer, and the skills and abilities of local members are depreciating, not because they are de-skilled, but simply because there is less money remaining in circulation in the community to employ them.

*L.E.T.Systems, by creating a local system of credit, creates a defacto second currency which only has value in the area in which it was created. This tends to put a "skin" around a community, plugging the leaks of expenditure which generally drain income out of a community. Because local L.E.T.System credits have no value anywhere else, they cannot be spent anywhere outside a local community, and so remain, circulating through the local economy, creating more employment, and more wealth, for everyone.*

## Problem 2: The Distribution of Income Problem

Because of the economic rules by which we have structured our conventional market economy, even if everyone started with an equal income, very quickly thereafter there would be "winners" and "losers", so that the pattern of distribution of income comes to resemble a pyramid, with many people at the base, earning very little, and a very small number at the apex earning a great deal. With greater purchasing power, the more wealthy section of the community is able to ensure that the market provides for their luxuries, often at the expense of the necessities of the poorer groups, who may lack the money to be able to purchase what they require. Taxation payments, costs of

purchases, and interest payments on credit and loans also tend to penalise those at the bottom of the pyramid more heavily than they do those at the top. At the same time, loans and grants made to those on low income, the value of wages and salaries paid, and the value of any social security pensions or benefits in the past two decades has never adequately reimbursed the "outflow". Those with money also are better able to purchase the information which in a perfect market is considered by economists to be "free and equal". The result is that the gap between the "haves" and the "have-nots" has been rising substantially, in Australia and overseas. (See Diagram 4)

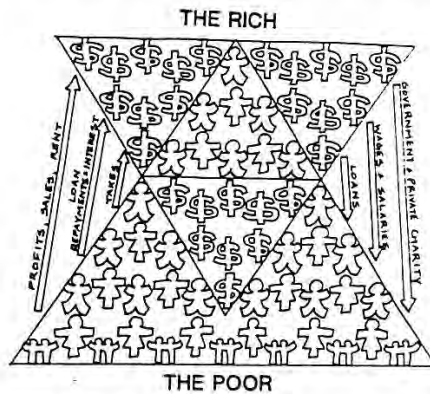


Diagram 4:

Because the total value of government and private charity, of wages and salaries and of loans never quite equals the total value of profits, sales and rents, of loan repayments and interest and taxation, since the late 1960s there has been a redistribution of wealth away from the poor towards the rich. This has occurred both between and within countries. At the same time, the people who suffer most from this redistribution have tended to be women and children, whilst amongst the "rich" men far out-number women. The problems associated with this pattern, both nationally and internationally are growing.

**RESULT:  
WHICH WAY DOES  
MOST MONEY GO?**

*L.E.T.Systems create alternative economic rules. Because all L.E.T.S. incomes start at zero, and because new value is created every time two people trade, the amount of "value" in circulation in a community grows with each transaction. In a L.E.T.System supply and demand is held automatically in balance (credits always equal debits), and no interest gets paid, so no one in debt can fall still further into debt. As everyone has equal access to credit, and to information about the "market" and other traders, the distribution of L.E.T.S. income comes to resemble an inverted pyramid, with more people with positive accounts, and relatively few people in debit. L.E.T.Systems foster social justice by creating a fairer means of distributing access to goods and services.*

**Problem 3: Distorted Values of Conventional Money**

The balanced money system would resemble a three layer cake with icing. At the bottom layer is the natural ecology - that part of the economy that keeps our air breathable, our water drinkable and our soils fertile. This is the ultimate basis of all human life and the basis of all wealth. Resting upon this is the non-monetarised domestic or community economy of child-rearing, homemaking, and voluntary community work. This system not only undertakes the bulk of the care and support of the community, it is also the base for the third layer - the monetarised system of marketplace exchanges, dominated by men. Government spending resembles the icing on the cake. (See Diagram 5)

## A BALANCED ECONOMY



Diagram 5:

The basis of all wealth is the "free" natural resources of fertile soils, drinkable water and breathable air. The domestic or community economy, which raises the next generation, teaches them to speak and interact in socially acceptable ways depend upon the "bottom" layer, and in turn support the operation of the market economy - where goods and services are not "freely given", but bought and sold for a monetary price. Government spending occurs at this third level of the economy.

Our economy, however, is far from balanced. Conventional money is a poor measure of value for ecological and community "transactions"

For instance, a tree is only considered to have value once it enters the market-place as sawn timber or firewood. The tree as a part of a natural ecosystem which keeps our air breathable, our water drinkable and our soils fertile (and thus our planet livable) currently has no "economic" or market value as it cannot be currently easily measured in dollars and cents. As a result, we fell our trees, and insist on the right of those employed in doing so to "make a living", while not having a way to demonstrate that there is in fact "less living" to be had by all as a result of increased costs of drinking water from areas where rivers are saline, increased costs of food imports because soils are less fertile, and greater health problems for those with respiratory and other illnesses. The effects on natural flora and fauna are even more neglected.

Similarly, conventional economics has great difficulty valuing the "domestic" economy; where goods and services are produced and exchanged, without ever entering into the conventional market place. Economists in their blindness, unable to provide an accurate measure of the size of the informal sector dismiss it as though it does not exist, or else try to force it within the meaningless straight jacket of conventional monetary accounting practice. The economists who advise politicians and other decision makers leave out of their economic calculations those goods and services that are in what has been called the informal sector. Child-rearing, homemaking, and voluntary community work, which contribute so much to our quality of life, may be as big as the monetary economy as a whole. The unpaid work of women, the elderly and children, because they are considered "Not In The Labour Force" are constantly undervalued. This creates an inherent distortion in the allocation of the rewards in our society between the sexes. World-wide, women provide more than fifty percent of the total hours of work, receive less than a third of the income of men, and own less than one tenth of the wealth.

The collapse of the informal sector, and the related collapse of the ecology is reducing the quality of life in our families, local communities and inner cities is not considered important as long as this collapse can contribute to the growth of the monetary economy using growth of the GNP. (See Diagram 6)

## OUR CURRENT ECONOMY

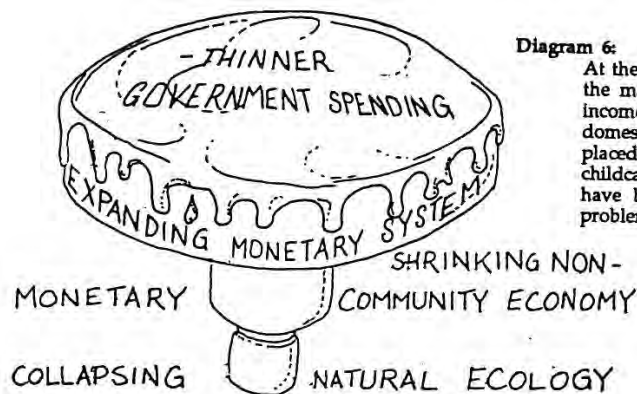


Diagram 6:

At the moment many equate "development" with economic growth of the market sector of the economy. With increasing numbers of two income families, parents are spending less time at home and the domestic or community economy is under pressure. The elderly are placed in nursing homes, and children spend increasing hours in childcare. "Free" environmental goods - such as air, soil and water, have been abused. Government spending, trying to cope with the problems caused by the unbalance is stretched thinner and thinner.

Driving our economy using growth of the GNP as our only indicator of "progress" is as useful as flying a jumbo jet with only an oil pressure gauge. As a result of the non recognition of this informal "domestic" sector, women in paid employment often work a "double-shift" - paid employment at the office, unpaid employment at home. This contributes to the undervaluing of women's work generally, by comparison to the same or equivalent duties performed by men.

*Although L.E.T.S. is as "human centred" a measure of value as is the conventional economy, it represents a move in the right direction - giving value to some of those things of importance that our economy considers worthless. In particular, Australian L.E.T.Schemes, by allowing a freely floating exchange rate system, and allowing the value of goods and services to be freely negotiated between trading partners (and not pegged to the arbitrary formal economy standard), it generally results in a revaluing of those items of "women's work" to a position of equality by comparison to "male" goods and services. L.E.T.S. enables the value of the informal sector to be acknowledged, and abolishes the gap in returns to "men's work" as compared to "women's work".*

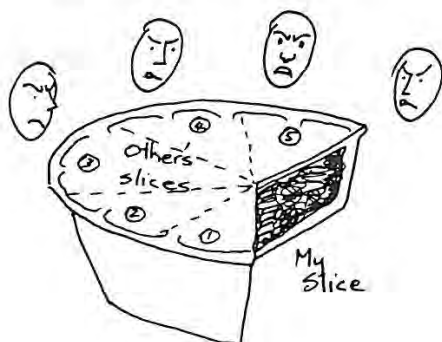
### Problem 4: Who Determines What is Valued?

In the conventional monetary systems the amount of goods and services available is not determined by individuals working in a local economy, but by impersonal international market conditions and multi-national corporations over which individuals, and even nations as a whole have little influence. Because our economy links access to services with access to money, it fosters the collective illusion that money is "real" rather than what it really is - a measure of value, in the same way that an inch is a measure of length. In giving control of the money supply to governments and to central bankers, people have lost control of their power to attach measurable value to what they consider to be important. Individual disempowerment is an inevitable consequence of the process.

*L.E.T.S., through giving the power to create value back to the individual, fosters self-esteem and self reliance. L.E.T.S. is a local economic system in which the quantity and quality of goods and services produced is determined solely by members. Individuals are in control also of the value they attach to all items traded; the amount of goods and services available through the system being limited only by the imagination and the time and effort people are prepared to contribute to the community.*

### ***Problem 5: Competition and the Collapse of Community***

In the conventional economy, people are forced to compete for what limited money is available. Looking at this in terms that can be understood, given the fixed money supply, if I am going to increase the size of my "slice" of the community economy, others fear that they will have to reduce their share. (See Diagram 7)

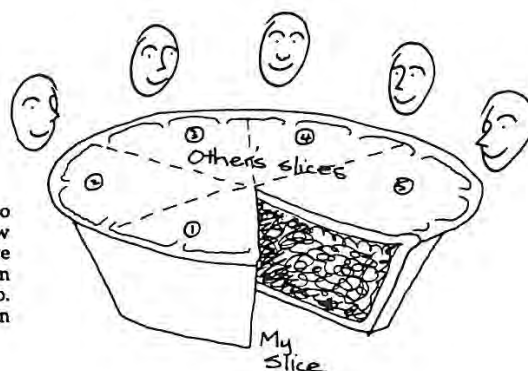


**Diagram 7:**

Community dissatisfaction results from an increase in the rewards available to a few at the expense of the many. High, long-term unemployment; excessive profits of speculators; wages falling to keep pace with prices; and increasing numbers of people forced to live below the poverty line creates a host of social and economic costs to the community which also have to be paid (eg. increasing crime rates, family stress and domestic abuse etc)

**Diagram 8:**

L.E.T.S. identifies under-utilised resources in the community and so enables us to bake a bigger pie. Increasing my slice will not now mean that someone else will have to go hungry. Because others have a similar access to credit as myself, they are not prevented from "entering the market", and can so make sure their needs are met too. The increased cooperation fosters a positive sense of community in which all people benefit.



This fear creates suspicious attitudes between social groups, and minimises open and honest communication about the real nature of financial situations. If everyone started from an equal position, there may be some justice in such an arrangement, but this is not so. The competitive motivation also encourages anti-social attitudes of "Bugger you Jack, I'm O.K.". This attitude is also destructive of the sharing, trust and open communication which holds local communities together. It is hardly surprising that 250 years of industrial development have resulted in the collapse of self-reliant communities, and the destruction of community, extended family, and now even nuclear family social support systems. As nations have difficulty equating their supply of money to the goods, services and skills available, inflation (and loss of monetary value) is an automatic consequence.

*L.E.T.S. maintains a perfectly balanced "money supply". New value is created every time two people trade. This potentially unlimited money supply means that in trying to improve my situation I am not "begging my neighbour", but instead creating new wealth for the whole community. (See Diagram 8) Cooperation, rather than competition is the inevitable result. Everyone benefits.*

## **Problem 6: Changing the Balance Between Local Labour Supply and Demand**

All trading systems depend upon the fact that someone can supply what others lack. There is, therefore, always a gap between supply and demand. Many services needed in our communities, however, are not provided, even though they are important and worthwhile, because there is insufficient money to pay for them. That unemployment exists at the same time that people's needs are unmet, is a specific indictment of the inadequacy of the conventional monetary system. The skills and abilities of many in our community lacks the source of finance to pay for them. As mentioned above, the conventional market economy also distributes goods and services according to purchasing power, taking from those who are most vulnerable and rewarding those who already have more than they can possibly need. By conventional economics it makes sense to pour wheat into the sea in order to maintain the international price of grains, while the quarter of the world's people, trapped in poverty, are hungry, and one ninth, mostly children, are seriously malnourished. On a local scale, similar irrationalities of our so-called "rational economic system" are found.

*LETS, by giving everyone in the community, equal access to basically unlimited credit, independent of their current incomes, prevents luxury goods and services being produced exclusively for the wealthy, at the expense of necessities to those less well off. As LETS through the trading sheet, further gives more "perfect information" about supply and demand, it ensures that there is a greater opportunity for meeting unmet needs and demands, which in a conventional monetary system are ignored, because they remain "invisible".*

### **Conclusion**

Our current economic system, therefore, has a number of weaknesses linked to the problems with money, based on the following factors --

#### **THE PROBLEM WITH CONVENTIONAL CURRENCIES**

1. Money is believed to be real, rather than an arbitrary chosen measure of value
2. Money comes and goes to the highest bidder, enriching the rich, impoverishing the poor.
3. Communities and individuals have little control over money supply. Instead it is controlled by external agencies.
4. The limited availability of money produces ineffective and wasteful competition.
5. Money is expensive and difficult to secure. Millions are spent in order to prevent theft, and catch those who take money that belongs to others.
6. Conventional money is a very poor measure of ecological or community value.

A more ideal economic system would have a very different set of consequences. In such a system, our currency would need to be as follows.



### AN IDEAL CURRENCY SYSTEM

1. Money, as a measure of value, needs to be created internally at the point of sale, where individuals engaged in an exchange transaction can determine how they value their trade.
2. Money needs to be readily available, limited only by the time and effort people are prepared to put into reciprocal exchanges, so producing cooperation.
3. Money needs to be cheap and accessible equally to all
4. The system would need to be simple to operate, easily understandable and safe in its social and environmental consequences.
5. The currency chosen would need to be theft proof.
6. Finally, because the conventional system is not likely to disappear in the foreseeable future, an ideal currency is one that can co-exist with the present system.

LETS meets the criteria of the ideal currency, because it recognises that money, in reality, is merely a form of information. This information can be given by steal-able tokens (our coinage), or in some other way (as in LETS).

People seem unaware that our current economy is based on a set of rules and principles that have specific consequences in shaping the nature of the communities in which we live. These rules and principles did not happen by chance - they were chosen from out of a range of alternative measures, precisely because they were considered to have advantageous effects from the point of view of those who were making the decision. The reason why LETSystems seem to work so well is that they adopt a different set of rules and principles, and the consequences of the operation of these principles is very different.

A LETSystem thus operates as a powerful tool for the regeneration of a sense of community. It links the social system together with the local community and builds mutually beneficial links which would otherwise not exist. It is a dynamic and evolving structure focused upon process, rather than a static organisation. It is thus flexible in finding new ways to meet members needs. It bridges gaps and plug holes in the social fabric.

*Case Study: In one metropolitan LETSystem, an elderly pensioner required to go for medical treatment to a major hospital one a week, and the taxi-fare there and back was placing a severe drain on his limited pension. The LETSystem enabled him to arrange regular transport with a nearby neighbour.*

*Over the course of the following weeks, this neighbour organised her routine once a week to fit in with the time demands of this regular appointment, and the two became firm friends. After a period of time the woman providing the lift ceased demanding a payment in LETSystem credits for the service they provided. The quality of life of both people had been improved and a more trusting and caring community had been generated.*

LETS is an important part of the emerging "new economic paradigm", urgently needed to create the socially just, democratic, participatory society and sustainable ecology. This is required to provide a secure future, not just for the present generation, but also for our children's children.