Information: The Great Leveller

REFORMING MONEY-SYSTEMS AND EXTENDING MONEY-FREE INFORMATION-BASED BARTER TRADING SYSTEMS

The multiple causes of poverty and inequality, like lack of adequate food, shelter, health care, education and geography, climate and culture have been examined from many disciplines but here they form the integral base of a forward-looking perspective of hope for all. The international forces that are making economic development processes more complex and destructive are highlighted and a fresh approach explored.

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Human societies are experiencing an uneven, mostly traumatic, global transition. From 300 years of industrialism based on fossil fuels (popularly termed the 'old economy') the world is changing over to the emerging 'new economies' based on accelerating information flows and de-materialising of GDPs towards services in the OECD countries. Such epochal shifts require paradigm shifts, evidenced by the crisis within economics, which is slowly moving away from equilibrium theories, simple, static models of human behaviour and its pseudo-scientific misuse of mathematics. Today, the growing 'hyphenated' disciplines of ecological-economics, social-economics, political-economics and evolutionary-economics attest to a broadening focus.

Similarly, development models are in disarray. My own model sees development as the evolution within human societies of the understanding of three basic resources: matter, energy and information and the substitution of patterns towards greater thermodynamic (not economic) efficiency. Thus, the key resource of societies today is information and the extent to which

its culture educates and nurtures its human and social capital and applies its knowledge base to managing its material and energy resources. An example is the evolution of fossil-fuel technologies since 1850 from solids and liquids to gases.

Therefore, I want to focus on two factors which have been often overlooked by economists, because they are often invisible due to the bias within traditional economics, and thus transmitted to policies of both private and public sector financial institutions and other government decision-makers. Examples of these paradigm problems include the recent narrow-gauge approaches of the IMF and other institutions to the reform of regulations and international financial architecture. At an even deeper level, the myopia of policies of development summarised as the now infamous 'Washington Consensus' have blinded a generation of public and private decision-makers — however well-intentioned and democratically inclined.

I have documented elsewhere such tragic myopia and even psychological states of denial within academic economics — particularly in the USA and the UK. I have also examined the social processes whereby this discipline (economics is not a science) came to bestride public policy worldwide — crowding out many other relevant disciplines — from sociology, psychology and anthropology to game theory, thermodynamics, chaos theory and ecology. Now that globalisation of markets has followed the erroneous dictates of such faulty economic paradigms targeted toward per-capita averaged GDP growth — we are dealing with their growing 'externalities'.

These costs include not only wider poverty gaps and social exclusion, but also continued erosion of non-money-based local livelihoods and cultures, as well as the extinction of other species and ecosystem disruption. Expanding micro-credit can usefully bring millions of traditional small entrepreneurs into money-based economies. Unfortunately, these money-based systems, now globally linked and highly unstable, must be overhauled to prevent the massive epidemics of new and exacerbated poverty they can precipitate. We witnessed such impoverishing of millions in Thailand, Indonesia and the other 'tiger economies' during the Asian meltdown, as well as in Mexico, Brazil, Argentina and most recently in Turkey.

Too often, luring people from their traditional ways and communities into monetarised urban areas where promises of 'development' and the

advertised 'good life', has proved unsustainable and led to such human tragedies. Public relations efforts of both, governments and financial players in today's global markets, sought to blame domestic causes for these national meltdowns: from cronyism, lack of monitoring or transparency or institutional structures, to faulty macro-economic policies. The usual remedial prescriptions included 'disciplining' of governments through floating currency regimes or pegs, even dollarisation, and ever-wider opening of their markets to 'free' trade. As Harvard economist Dani Rodrik documents in 'Trading Illusions' (*Foreign Policy*, Mar-Apr, 2001, pp 55-62) this "incessantly repeated openness mantra", echoed by officials of the IMF, the World Bank and other international financial agencies, has perverted development priorities in many developing countries. Like Rodrik, I have also stressed the need to build homegrown economies without falling into the longer-term traps of import-substitution, excessive tariffs, etc. In any case, global FDI flows are expected to shrink from $1.1 trillion in 2000 to less than $800 billion in 2005. The share going to developing countries is estimated to remain around $200 billion, still only 29 per cent of the total (*The Economist*, World Investment Prospects, February 24, 2001, p 80). Today, with the global sharing of experiences, more pragmatic development can be country-specific, employing multiple strategies more fitted to culture, knowledge, geography and to ecological and social assets.

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I welcome the recent honesty of defectors from these 'old-time religion' orthodoxies, including Joseph Stiglitz, Jeffrey Sachs, Amartya Sen, George Soros, and the more cautious Paul Krugman — to cite those who are well known. I hope they are helping to expand the horizons of the economics profession towards a more humble, inter-disciplinary stance instead of its usual conceptual imperialism. London's *The Economist*, for example, has been claiming the territory and contributions of game theorists, psychologists and ecologists, all as part of economics. This kind of intellectual inflation is understandable because circulation, consulting fees and textbook sales are at stake!

Thus, I will focus on two main approaches to reducing poverty and inequality that stem from my 'outside the economics box' analyses. I consider them key tools to apply at global 'acupuncture points' where focused interventions can produce beneficial results:

1. Reforming the world's money-systems, particularly currency exchanges. Such reforms must also include macro policy and banking reforms. I have advocated to address structural inequities and to expand today's narrow indicators of 'wealth' and progress. Conventional policies and paradigms are promoted by powerful special interests and will be difficult to change. They have led societies astray, in the pursuit of per-capita averaged, money-denominated GDP growth.

2. Building out electronic platforms from global to local for extending barter, countertrade and other money-free, pure information-based trading systems. This task is much easier, since it builds on age-old cultural knowledge, rests on powerful incentives, makes use of the Internet and is growing via private sector and technological initiatives involving civil society and local governments.

Before I describe the Foreign Exchange Transaction Reporting System (FXTRS^{sm}) and my approaches to barter, a little context is necessary. We are well into the processes of globalisation and the Information Age — whose technologies have changed and will continue to change our economic landscapes on the planet. The world is already off the gold standard and on the information standard; ie, information is the world's new currency (either on paper or as bits in electronic telecommunications) and most importantly, unlike money, it is not scarce.

All traditional economic models are money-based and rooted in concepts of materialism, scarcity and therefore competition. Information on the other hand is abundant and non-exclusionary. If you give me information, you still have it as well. Sharing of information creates synergy, innovation and abundance. This is why bartering, formerly a local phenomenon of traditional societies (and still used by some two billion people who are not in the world's money economies), is now going high-tech.

There are two ways that human beings make transactions: 1) via money-systems and currencies, which are still creating artificial scarcity (eg, via the rationing and steering of credit and restrictive monetary policies, high interest

rates, etc); and 2) via all forms of barter, from local to corporate barter, countertrade, payments unions, and estimated annually as between 10 to 25 per cent of all world trade. Therefore, as we devise reforms for the international financial architecture, banking and money-systems, we must keep in mind that today, high-tech barter and freestanding electronic platforms can bypass malfunctioning money-systems. With this in mind, I now turn to one discrete tool to reform traditional currency-trading.

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STABILISING CURRENCY MARKETS

The Foreign Exchange Transaction Reporting System (FXTRS[sm]) is targeted precisely at making foreign exchange trading more efficient and transparent. Once it is adopted by one or two important central banks in the Organisation for Economic Co-operation and Development (OECD) or developing countries, it will probably become a global technological standard as others follow suit. Private market players can adopt interfaces in spite of the small trading fees, simply because the system provides the information they lack and it is more efficient. This can also reduce the money-laundering, tax-evasion and criminality that exist in today's unregulated global casino. Such systems must handle many currency market functions, and reduce the likelihood, scope and force of a massive bear raid attack on a weak currency. Such attacks have sometimes played a role in crippling the economy of the target currency. Nevertheless, at times and to some degree, they are inevitable. FXTR systems will not eliminate them, but greatly reduce their likelihood and their severity.

Foreign Exchange (FX) traders, per se, are not the cause of the problem; they do not make the rules. On the contrary, traders provide liquidity, with generally razor thin bid-offer spreads and very low transaction costs, which are essential to the satisfactory operation of the US $1.5 trillion global FX

market. This is only possible because trader activities, including speculation, produce a market of such enormous size that it is economically possible for both high liquidity and thin margins to co-exist. Bear raids on weak currencies are examples of herd-behaviour and can be viewed as battles. On one side, are the central banks, whose task is to help manage their domestic currency and economy. They are the only market players ready, if necessary, to sell low and buy high to protect their national economies. On the other side, are all the others, individuals, banks and all other financial institutions. This includes not just speculators and hedge funds, but anyone who is ready to jump into the fray at some point in the hope of buying low and selling high.

When an economy is weak, there is no doubt that to some extent its currency price should fall. Yet, whether a bear raid succeeds or not, primarily depends not on how overvalued the currency is, but more on how much capital can be brought into the attack and how much capital is fleeing the country. Even sound currencies can succumb to a large enough raid. A bear raid will succeed because of the size of the traders' at-risk war-chests. Even groups of central banks in consort cannot put up a defence against today's huge leveraged hoards of cash. The bear raid forces an excessive measure of so-called 'market discipline' onto countries — even those whose 'fundamentals' are sound. Bear raids were prevalent prior to the US 1929 crash. In 1934, the newly created Securities and Exchange Commission (SEC) introduced a number of changes in the transaction process itself. One was the 'uptick' rule, which prevented a broker from selling 'short' if the last sale price of a listed stock was lower than the previous transaction price. This slowed the momentum of bear raids and they largely disappeared. Note that this rule utilised 'ticker tape' action. 'Tickers' now electronic, are based on transaction reporting at the heart of FXTR systems.

Today, with screen-based technology undreamt of in the 1930s, a much smoother process handles the more active global currency markets. Technological designs in the FXTRS[sm] will enable the recording of purposes of trades and counter-parties and help the relevant standards body to curb bear raids without impairing the functioning of the market in normal times and without depriving or slowing the execution of any transaction desired by willing buyer and seller at a mutually agreeable price. These systems would fulfil some of the needs cited by central bankers and finance ministers for 'a new global financial architecture'. The system can be set up to be

acceptable, both politically and financially, to central banks, financial firms and other users, vendors (Reuters, Bloomberg, etc), foreign exchange brokers and dealers as well as to national political leaders and the public. The participating central banks can assure that all transactions will be promptly reported to the system on a 'ticker tape'. Trade reporting itself in existing markets generally helps stabilise the market. When a market lacks information, participants must pay for extra research and are still sometimes scared or vacillate too easily between over-caution and recklessness, characteristics exhibited by the global currency markets and their recent volatility, over and under-shooting.

Trade reporting will help smooth currency markets, but further stabilising mechanisms are still needed. The transaction fees of 0.001 per cent are assumed on all trades of US $1 million equivalent, amounting to US $10 to the buyer of dollars on a base-line trade (or whatever 0.001 per cent equals in a base-line trade for the buyer of another currency). That amount is very small compared to other costs and benefits perceived by both parties to any trade. It is reasonable to assume that a charge this small would not derail any trade or normally even be noticed. However, the basic fee revenue for the system would then be US $10 million per day or about US $3 billion per year if and when all major currency countries were participating. The fuller patent description of the financial architecture FXTRS^sm^ is available from the author.

National policies can also include tightening of monitoring and regulation of capital flows, domestic banking and corporations' borrowings and central bank supervision. Chile has provided the world with useful models in these areas. Currency markets can use fully transparent 'best practices' trade reporting, such as the FXTRS^sm^. Such independent 'virtuous circle' regulating is understood better by game theorists than economists. For example, in 1910 the state of Kansas blocked the lawless trend of lax corporate charters. Yet in two years, twenty-four other states followed Kansas' lead with modern, accountable charter laws, which restored investors' confidence.

Many countries will continue to set their own domestic rules and frameworks for financial institutions according to their own cultures and domestic concerns. This is especially so, since the bounceback of Korea, Malaysia, Thailand, and the Philippines which flouted much IMF advice and used Keynesian deficit-spending to stimulate their recoveries. Japan is still

trying to restructure its economy, with much conventional economic advice about 'opening up' which misunderstands Japanese culture and goals of social stability and full employment. National governments have the wide latitude to act creatively, without waiting for international agreements or bowing to the dictates of the IMF or currency traders and corporations.

Indeed, interventions from public, private and civil society are needed at all levels, from global to local, to shape a sustainable global economy. The tasks include designing additional dimensions of globalisation at all levels, so as to include more accurate accounting; global monitoring and feedback; higher standards; criteria; better rules, regulations and codes of conduct and principles — embracing human rights, equity and Earth Ethics. All these must embody better science and information based on the new biological knowledge of our relationship to nature.

FACILITATING BARTER FROM LOCAL TO GLOBAL

As mentioned, barter has been the province of the two billion humans who are not part of monetarised and urbanised sectors. Countries use payments unions, such as the Soviet Union's COMECON system prior to its collapse in 1991, while corporations routinely exchange an estimated $1 trillion worth of goods and services annually, both domestically and internationally. Because all these barter exchanges are made by agreements, contracts, letters of credit and local scrip currencies, that is, information, their value is not tracked well in conventional monetary statistics. Even the use of reference currencies is not necessary. Many of these barter exchanges involve two or three or four-way or more commodity transactions.

All this was inefficient, and cumbersome, prior to computers and the Internet. Today, it is at a snap — and barter has several advantages over currency-based trading. Firstly, barter enables resource and commodity-based economies to trade directly with each other — without first needing to earn or hold foreign exchange in key currencies. For example OPEC, which dollarised its oil 40 years ago, is now whipsawed in today's $1.5 trillion daily global casino. While OPEC still has considerable pricing power (OPEC controls 65 per cent of all the world's proven oil reserves) and the world is still guzzling its products, many of its member states are still developing and are either short of foreign exchange or in debt. Direct barter (or very

low interest rate loans, which can also be repaid in goods and services) open their trading options and opportunities enormously.

For non-OPEC developing countries, barter deals allow them to avoid high dollarized oil prices and obtain the oil they need by trading their under-valued commodities in exchange. Similarly, governments can procure needed capital goods, infrastructure components, etc, by bartering with each other, just as corporations barter media time, band-width, airline seats, hotel rooms, equipment and a host of other goods and services. All this can be facilitated with robust computer software that can handle the tax regimes of different countries and all the requisite back-office clearing and settlement systems for this type of information-based credit-trading.

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As the volume of real commodities on such systems grows, today's fiat currencies will tend to float against these 'baskets of commodities' (eg, oil, generators, machinery, agricultural commodities, etc) whose prices in currencies are often tracked. We must remember that currencies, money per se, has no value, but performs as a tracking and scoring system — and when properly managed — a store of value. As we see for example, in the case of oil: this 'black gold' is more liquid, valuable — and fungible than most fiat currencies. Furthermore, oil is the essential energy source that still drives most of the world's transportation systems. Venezuela, the country that invented OPEC, understands all this and President Hugo Chavez has taken the lead in signing 12 new oil agreements with Latin and Central American countries to provide their oil needs under innovative and concessionary exchange terms. Bankers and their economists, still trying to re-impose scarcity on the Internet (via encryption, cyber cash, secured credit cards, etc) are horrified.

Economists tend to dismiss barter as 'primitive' just as their textbooks taught them — but it will be Internet barter companies and real traders in real commodities that will prove those textbooks obsolete. How can barter be facilitated among the world's two billion people outside the money-

systems? They are not 'poor' (which is what economists call people without currencies). These two billion people are richly resourceful, often living sustainable lives. Today, off-grid, solar-powered micro-generators, such as those being supplied to rural villages in Africa and Asia provide connectivity. Barter menus, from global to local can be accessed via cheap hand-held devices. Villagers may find a local menu of barter partners and feel little need to make a long trip to a market town with no assurance of selling their produce.

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Every country has the sovereign power to coin its own currency and make public works loans directly as opposed to the practice (often caused by political pressures from private banks) of loaning the federal funds directly to private banks that then lend on to consumers at market rates of interest. This fractional-reserve banking system term has become the norm in the US. Many believe that the sovereign power of creating a nation's money should not have been ceded to private banks, who can lend it out at interest while only retaining a fraction (usually 8 per cent under BIS current rules) in reserves. Other essential strategies for local control and for building thriving home-grown economies include local credit-unions, micro-credit, small banks devoted to local lending (mandated in the USA by the Community Reinvestment Act), local business development groups, and networks of local venture funders.

However, many civil society organisations (CSOs) are now challenging the practice of bringing money into creation as debt to banks. For example, in the US, the Chicago-based Sovereignty Project, a coalition of local development advocates, has introduced a bill in the US Congress which would allow the US treasury to lend directly to cities, interest-free, for democratically approved public works projects, ecologically sound development, new schools and so forth. Rather than floating high-interest bond issues, which burden future generations, such municipal sovereignty debts would be repaid back to the US treasury directly. This was the practice with Canada's central bank until the 1950s.

Local barter networks and various forms of local currencies and scrip are as old as human communities and are used widely in traditional societies and informal sectors worldwide. Western adaptations include Cincinnati's Time Store, a typical 'bring and buy, skills and labour exchange' café operating in the late 1890s and Ralph Borsodi's commodity-backed currency 'the constant' which circulated in Exeter, New Hampshire, in the 1970s. Indeed, in USA during the Great Depression, such local currencies in every state and in most cities helped local communities survive, as documented in Mitchell and Shafer, *Depression Scrip of the United States* (1984).

Both 'public' and 'private' sectors in our economic and political textbooks must now move over, as the third, the civil sector where most of the world's poor exist, takes its rightful place in human affairs. University courses now study these civil sectors; politicians misunderstand them.

Today, we relearn that anyone short of official national currencies can engage in as much barter as necessary. These include high-tech exchanges using personal computers, Local Exchange Trading Systems (LETS) and the many kinds of local scrip currencies now circulating in hundreds of towns in the USA, Europe, and other OECD countries. Indeed, the most successful Internet second-hand auction company, e-Bay is based on the same model.

These tools can complement scarce national currencies where monetary policy is ill conceived or too restrictive to help clear local markets, employ local people, and provide them with an alternative local purchasing power. In short, no poverty-reduction strategy will be complete without barter.

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