

Elements of a Local Banking System

Creating a community currency is only part of the task of developing a financial system responsive to community needs. Also important is the creation or restructuring of the institutional arrangements essential to introducing and maintaining a community currency. If we are to begin to design a local banking system that would work for the development of the local community or region, what are the elements or characteristics of such a system? A community banking system would have to:

1. Be simple to understand yet consistent with our experience of the present system. That is, it would have to consist of both cash, or paper, currency as well as a checking system- or some other form of bookkeeping that utilized the computer to simplify accounting.
2. Deal, unlike our present system, in money redeemable or exchangeable in real value. It would not necessarily be gold or silver, but it would meet everyday needs, such as energy. Without a redemption system, it will be difficult to convince people of the value of its money. After all, isn't that exactly why the dollar has so devalued- because it cannot be redeemed for real value by the primary issuer, the U.S. Government?
3. Most importantly, be based on a measurement of value as universal as possible and not subject to swings up and down, as in our present money system. In other words, it would have to remain as constant in value as possible. This would establish a sense of permanency and security as well as make the process of exchange more practical. Such a method of measurement would be the key factor in making possible a universal system of money and banking, without the need for central banks or central governments to become involved in money issues. Once this standard of value has been defined, the state or federal government could modify it just as the Bureau of Standards maintains and monitors other standards of measurement, such as weights and units of space. But, it would not require state intervention into the economic sphere, as is not the case at present.
4. Finally, be organized at the local level, and controlled by the community as a whole. For example, each community would elect members of the board of the issuing bank, which would preferably be a nonprofit institution. Under such a structure, banking would become more truly a profession wherein bankers would be paid for their services, while the community would decide how and where its savings would be invested.

Energy as a Universal Unit of Measurement

In order to make as clear as possible what is suggested here, I would like to make a simple proposal that we consider using some form of energy as the unit of measurement and as the reserve currency for redemption purposes. It is generally recognized that energy is a factor in all forms of production and in meeting the needs of society as a whole. In this respect gold, commodities or resources that provide essential energy are replacing gold as the traditional form of reserve currency. Thus oil is referred to as "black gold."

In brief, to outline how this transfer could take place, let us begin with energy production. Almost every community has renewable resources for producing energy. Such resources could be wood, wind, hydro, or waste material that can be burned in a modern furnace, such as a pyrolytic burner that converts wood wastes or other wastes into gas, oil, or charcoal. All such energy sources can be converted into electricity or measured in kilowatt-hours.

The first step would be to create a community-based organization, possibly set up as a cooperative (as a worker-owned business), or owned by a community development corporation, to produce energy from any or all of the locally available sources. This organization would sell notes, called energy notes, at the going rate of electricity. For example, if local utility rates are presently 10 cents a kilowatt hour, then 1 dollar would buy 10 kilowatts for future delivery. Owners of the notes, sold in lots of 10, 50, and 100 units (comparable to current values of one, five, and 10 dollars), would hold these notes for future redemption in kilowatts-no matter what their future dollar rate. In effect, these owners would have a guarantee against future inflation of electric rates. This would be the attraction for purchasing notes. The community organization or corporation would issue the notes only in amounts equal to their projected output of electricity, thus avoiding inflation of the currency.

Energy Notes: Redemption

The responsible organization or corporation would invest the dollars received in exchange for the energy notes to buy equipment to produce local energy. This equipment could be pyrolytic converters for wood waste, wind generators for a wind park, or generators for hydroelectric, depending upon the most abundant source of renewable energy available in any particular location. Up-to-date cost analysis demonstrates that such intermediate technology in today's markets exists, assuming the availability of proper renditions (such as tested wind sites).

For example, a wind park capable of producing 1.25 megawatts of power could be built for a capital investment of less than 2 million dollars, using 25 machines that each average 170,000 kilowatt-hours per year. Assuming that an average family needs around 5,000 kilowatt-hours a year, the production of the wind park would produce sufficient electricity for 800 families. In comparison, current costs of constructing nuclear power plants are running several times the capital investment necessary to produce the equivalent amount of electricity.

The electricity generated would be fed directly into the existing grids of utility companies under the PURPA legislation mentioned in the last chapter. The utility company would either be paid cash for this electricity, or ideally, agree to accept the energy notes issued by the energy cooperative or community-based corporation as payment, kilowatt-hour for kilowatt-hour. Such a system would constitute the optimal way to redeem the energy notes. For instance, assume that Mary Smith has bought 5,000 kilowatt-hours for \$500. That would mean that, at any time in the future, Mary could pay an electric bill of 500 kilowatt-hours with five of her 100 kilowatt-hour notes.

The utility company would have to agree to accept such payments in advance of selling energy notes. Some utilities may be willing to do so and others will not. However, if there was a broad base of public support for the concept, including environmental, antinuclear, and other citizen groups, it would be difficult for utilities to refuse a reasonable proposal. PURPA legislation requires utilities to accept or buy such energy but does not specify the terms of the sale. These terms are left up to state-regulated public power commissions. In either case, under the same PURPA legislation, the utility companies are required to carry independently produced electricity on their grid.

The validity of the energy notes does not, however, rest on the agreement of the utility companies to redeem them. The community corporation that originally issued the notes might ultimately be the redeemer based on its cash income, which would increase as electric rates increase. The investor in energy notes could still receive 10 kilowatt-hours of value in the future for a 10-kilowatt-hour energy note purchased today.

Liquidity and the Role of the Local Bank

Redemption is one concern for the creation of an appropriate currency; liquidity is another. Assume that John Jones purchased energy notes equal to 10,000 kilowatt-hours of electricity. Knowing that as a single man he only consumes about 3,000 kilowatt-hours of electricity per year, he has made an investment in his future as well as an investment in his community's self-reliance. But unexpectedly, John finds he needs cash today. He might sell the energy notes to a friend, or barter them for services he needs. However, if a bank would accept the notes, it would provide John with a broader base for the sale of his energy notes. It is the appropriate function of banks to be the managers of money and to deal with the question of liquidity.

A local bank has an important function in the creation of a community-based currency. A local bank could buy and trade in energy notes like it might in foreign currency or securities. The dollar value of the energy notes would fluctuate as the price of electricity increased. Another institution might be set up to provide the same function, but a bank already has the staff and processing equipment to handle the management of money. Such equipment and staff would be costly to duplicate.

In order for a local bank to agree to accept energy notes, it would have to have confidence in the capability of the community corporation initiating the project. But again, broad-based public support would make it hard for the bank to resist handling the new currency. Soon, other companies beside the utility company might accept energy notes in payment for bills. Mary Smith might open a savings account with her extra energy notes. Before long, there could be a broad local market and trade in energy notes, all traded with the confidence that ultimately this currency, at least, is redeemable for something of real value—energy that can heat the home or warm the meal or produce the light to read by. There would also be the added satisfaction that this energy was produced locally from renewable resources.

Self-financing Communities and Nonprofit Banks

What I outlined above describes a way for communities to finance the production of their own energy by issuing energy notes. The community development movement is badly in need of capital. Yet once this "self-financing principle" is grasped, it will be a very useful and flexible tool for community development.

Still, the question remains of how to capture the value gained in this trade of energy notes and retain it within the community. It is a question of community reinvestment. Although banks are the proper managers of money—they essentially deal with accounting questions—they are not necessarily the most competent entity to make decisions about the lending of money. As to the question of lending community capital, an ethical dimension should be at work. Social and ecological considerations should come into play as well as purely short-term financial considerations.

But how is this not-for-profit dimension bought into banking? Credit unions come the closest to a community group establishing its own criteria for lending. However, credit union legislation and the high cost of overhead limit the scope and flexibility of credit unions. Working with a local bank that has the facility and staff already in place, and experience managing money, would make good sense. An interested community group could open a separate account in the bank, designating that deposits to that account be loaned only for specific purposes, such as providing increased community self-reliance in the areas of food, energy, housing, and essential services. The depositors would assume all the risk. However, with demonstrated community support for all the businesses receiving the loans, the chances for the success of those businesses would be very good. Although the interest rate to the depositor might initially be lower than what is available from money markets, the return would be higher in the long run in terms of local availability of basic items. Such a fund could begin with U.S. dollars, and then gradually accept deposits of energy notes. A percentage of each loan could be made in the new currency, facilitating and expanding its circulation.

In any case, a community-based fund has merit even without the energy notes. Small local banks are looking for innovative ideas to draw in depositors, and depositors are increasingly seeking ecologically and socially responsibility investment opportunities. A community development fund along these lines known as SHARE (Self-Help Association for a Regional Economy), in which a local bank is administering the accounts of the members, has been established in the Berkshire region in western Massachusetts.

The unsettled times mandate that we consider the options open to local community groups, and work together to establish economic systems on a human scale that are in harmony with the wise use of land and natural resources.

For more information, please contact the E. F. Schumacher Society:
140 Jug End Road | Great Barrington, MA 01230 USA
Phone: 01.413.528.1737 | E-mail: efssociety@smallisbeautiful.org
www.smallisbeautiful.org