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THE CASE FOR MONETARY DIVERSITY

Simon Mouatt
Southampton Solent University

simon.mouatt@solent.ac.uk

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ABSTRACT
This paper explores the recent evolution of money and banking, in the wake of the financial crisis, and its implication for the global economy and society. In particular, the paper considers whether or not these developments are leading to a more stable and sustainable capitalist financial order. Three broad approaches to monetary reform are considered, that target usury, debt and crisis respectively, and it is concluded that the global dependence on mono-currency systems is ignored by all three. Drawing on Marx, Hayek and Lietaer it is further posited that the facilitation of currency diversity, especially in the midst of an information age, is an extremely important policy prerequisite for a future stable and sustainable capitalist system.

INTRODUCTION

Money remains a claim on real resources yet, in recent times it has evolved from its simple means of exchange function to appearing as a commodity, as an underlying asset in increasingly abstract securities markets. Indeed, we are at a very exciting time for money. The conflux of innovation within the wider banking and financial sector, for instance, is resulting in unprecedented 'virtual' wealth, alongside the *real* economy development of new activities based on ever more sophisticated cyber-systems. As a consequence, the traditional banking sector appears increasingly 'divorced' from the real economy and, the productive sector (and society) is not always particularly well served by their banking processes and mindset. The question is asked, therefore, whether the evolution of the global currency system(s) has (or will) led to a more stable and sustainable capitalist order for the future. It is posited that, despite the historic ascendancy of private credit, currency-issue and banking forms, there are increasing non-bank *corporate* (and social - see Greco) monies, credit and payments systems that are gradually replacing the core activities of the traditional banks leading to significant ramifications (Greco 2001). This is seen as positive since, the usual dependence on a *single* money-form, which is state-sanctioned and privately-issued, fails to provide the resilience needed for a sustainable monetary economy as a consequence of the lack of currency diversity. Yet, in the main, we remain dependent on the mono-culture of dominant and pervasive single currencies.

The paper also explores what might be driving these corporate and social monetary developments. Marx, for instance, had suggested that the productive sector would gradually subjugate money lent as capital (older forms of money-lending), as a result of the *secondary* nature of finance to the (value-adding) production process (Marx 1971: 468). A capitalist credit system then developed and the modern practice of banking (as a business) emerged. This seemingly counter-intuitive theme is in contradistinction to the popular notion that posits finance as increasingly autonomous, or de-coupled, from the productive sector in recent decades. Yet, non-bank monetary activity is increasing and this could be seen as analogous to the developments that Marx foresaw, as the productive sector seeks to gain a proportion of the surplus value (profit) that the financial sector has been enjoying (Mouatt 2010). In addition, as Lietaer notes, complementary currencies that are issued for social purpose and an informal economy, have proliferated with notable consequences (Lietaer 2001). It is further suggested that both of these *privately*-driven developments have been facilitated by the information revolution and are sometimes supported by state or civic authorities. The paper concludes that non-bank *corporate* monetary activity, complementary currencies and present systemic vulnerability, provides convincing evidence to support the proposition that the productive sector and social movements (rather than the state or private banks) are driving the monetary transformation in the modern era. These changes could also, in the final analysis, prove to be more stable (Mouatt & Adams 2010: 4).

WHAT'S WRONG WITH SINGLE CURRENCIES?

Since the 1844 Bank of England Act, the private (at the time) UK national bank has (almost exclusively) reserved the monopoly right to issue paper currency (originally backed by specie) that is sanctioned as legal tender. As capitalist credit relations have evolved, from the discounting of bills of exchange and bond issues to more complex forms of finance, this base money has provided the platform for the proliferation of bank deposits that (since they are acceptable for the payment of taxes) can be considered money proper (Knapp 1924). In addition, the practice of fractional reserve banking (with decreasing liquidity ratios) has led to an almost *Wicksellian* pure credit economy, as bank monies are created *endogenously* in

response to demand (Wray 2004; Rochon 2007; Howells 2008). Yet, notwithstanding the different monetary forms, the currency denomination is still the pound. So, what are the criticisms of this debt-based money? The arguments usually posited are that, despite its role in capitalist development *per se*, the system will eventually lead to unsustainable levels of indebtedness (the inevitability of default), usurious exploitation and periodic crises. As a consequence, various proposals for the transformation of the system are proffered, as potential solutions to these three problems.

Firstly, monetary reform that targets usury, defined here as an interest-charge in excess of justifiable production cost, aims for the national bank to issue interest-free currency (credit-money) for public expenditure in the hope of promoting a more sustainable (and just) monetary system (Shakespeare & Challen 2002: 63). This is instead of an indirect issuance (with interest) through the sale of treasury gilts to investors. As an antecedent to these proposals we can consider the proposition of Ricardo, in 1824, who advocated the state issue of interest-free money, albeit still convertible to specie (Ricardo 1824: 1):

> Suppose the privilege of issuing paper money were taken away from the Bank, and were in future to be exercised by the State only, subject to the same regulation to which the Bank is now liable, of paying its notes, on demand, in specie; in what way would the national wealth be impaired? We should then, as now, carry on all the traffic and commerce of the country, with the cheap medium, paper money, instead of the dear medium, metallic money; and all the advantages which now flow from making this part of the national capital productive, in the form of raw material, food, clothing, machinery, and implements, instead of retaining it useless, in the form of metallic money, would be equally secured..... It is evident, therefore, that if the Government itself were to be the sole issuer of paper money [checking deposits were underdeveloped at the time], instead of borrowing it of the [then private] Bank, the only difference would be with respect to the interest; the Bank would no longer receive interest [currently received by private investors in gilts], and the Government would no longer pay it: but all other classes in the community would be exactly in the same position in which they now stand.

At the core of these reforms is the insight that, *usury is not necessary*. Whilst it can be argued that administration charges, collateral and properly conceived repayment plans are imperative for the proper functioning of private credit markets, usury is not so easily defended for state expenditure unless the motive is to profit the private financial sector and their investors. New Zealand and Canada have practised this 'interest-free' issuance in the past and several civic authorities support it today (Mouatt 2010: 215). The ideas also resonate with the great religions of Islam, Christianity and Judaism that have a historical tradition of opposing usury on ethical grounds. Yet, in the capitalist mode of production, the faiths have compromised these values and therefore been complicit in the levying of usury. As a result, the state appears to be stuck with the interest (and debt) that credit generates. We are also informed by mainstream economists that there is no alternative reward for recycling monies from surplus to deficit agents that will provide the necessary liquidity for the efficient operation of a free-market economy. Bourgeois apologists, of course, claim that the interest received is a *reward* for capital providers who have forgone consumption. Yet, interest diminishes the consuming capacity of borrowers and, when compounded, can eliminate it altogether. Indeed, as Magrit Kennedy has observed, interest instigates an inflationary tendency, as an additional production cost, and is also responsible for the exacerbation of income disparities (Kennedy 1995). Ironically, if a modern government were to seek to implement income redistribution, through the expansion of tax, this would be fiercely resisted. The usurer conversely, as El Diwany notes, extracts substantial tribute from the productive economy and this income-stream, in contrast to wealth held in other forms, is not subject to the universal principle of entropy (El Diwany 2003: 7). Money *rentiers* also experience an increasing accumulation dynamic over time that, in conjunction with bank consolidation, facilitates the formation of

what Lenin referred to as a 'financial oligarchy' which then wields an increasing amount of *social* power in world affairs (Lenin 1996: 44). The supporters of interest-free issue of money (for public expenditure and wider uses) hope to mitigate the profiteering, which is so prevalent in the financial sector, and reduce the banking sector surpluses towards more acceptable margins.

Secondly, other monetary reformers cite the actual *debt* itself as the key problem. Stephen Zarlenga for instance, from the American Monetary Institute based in Chicago, suggests that the state should create a legally sanctioned 'money of account' that gradually replaces credit-money to become 100% of the money supply. The money is provided interest *and* debt-free (Mouatt 2008). Joseph Huber and James Robertson (New Economics Foundation) in their 2000 book *Creating New Money* also propose a debt-free issuance for the purposes of government expenditure (Huber 2000). Under these proposals the money is not backed by specie, only by the force of law. The private banks are also *only* permitted to conduct lending on a 100% fractionally backed system, which means they can only lend their own money (investor capital) and/or, with permission, that of depositors, but may not create new money as they do today. This necessitates, of course, much stronger state (financial) intervention and is a much more revolutionary proposal. However, the difficulty with these proposals is that they encourage *moral hazard* that is, the lack of suitable sanctions to mitigate irresponsible spending or profligacy by the state. There is also no incentive for state expenditure to be conducted in an efficient manner. Credit-money, in contrast, creates an incentive for monetary discipline since the money needs to be repaid. Debt-free issuance can also be considered *fiat* money, since it remains in circulation rather than being retired in the manner of credit-money. This means that another problem with this proposal is the tendency for economic agents to hoard part of the money-stock, thus creating circulation blockages to the detriment of an efficient *real* economy. Finally, the interest-free issue of credit-money is, arguably, less likely to be inflationary. Yet, in contrast to the present system, it is suggested that both of the monetary reform proposals are likely to mitigate inflationary pressure since there is no interest to pay. However, given that interest-free money is 'created for purpose' and then retired from circulation, there is *less* likely to be an excess of monies in circulation that could trigger demand (otherwise not occurring) and subsequently raise prices. As a consequence interest-free proposals, perhaps, are more likely to gain broad support from diverse groupings and interests across society.

Thirdly, there is a strong tradition of would-be monetary reformers who are concerned with financial crises and, posit a range of remedies to mitigate the impact and likelihood of a reoccurrence (Minsky 1978; Kindleberger 2000). The recent sub-prime mortgage security crisis, for instance, that rendered large numbers of banking institutions technically insolvent, has spawned several such voices and the debates and analysis (such as the work of Kregel) continue today (Kregel 2008). These measures range from calls to separate investment banking from retail, improving disclosure and credit-rating procedures, curtailing capital flows to strengthening the Basle 2 regulations to ensure adequate reserves and audit (Griffith-Jones 1998; Cohen 2008; Docherty 2008). Solutions differ, of course, according to the particular characteristics of the crisis at hand.

Whilst interest-free, debt-free and crisis monetary-reformers have clear contrasting approaches to transform the current system, they all recognize the implications of a lack of liquidity. The benefit (and need) of sufficient circulating liquidity is a recurrent theme in history. The ideas of Benjamin Franklin or the Social Credit movement of the thirties both cited the scarcity of money as the root economic problem, rather than the lack of other

resources (Douglas 1979; Brown 2007). Thus during the golden-age, for instance, the availability of 'cheap money' is often cited as a major contributing factor to the prevailing (favourable) macroeconomic climate (Pettifor 2006). Friedman had also cited the Federal Reserve credit squeeze, and subsequent lack of money, as the key contributory factor to the 1930s Depression (Friedman 1956). It appears that the lack of liquidity is often the prelude to economic (and political and social) strife. The *debt-based* money system, controlled by the private banking infrastructure, is seen as the root cause of the lack of liquidity by monetary reformers. When interest-bearing credit-money is created, through the production of loans by the banks, there is enough circulating currency to repay the principal of the loan *but not to repay the interest*. This results in the so-called 'impossible contract' and so, the economic system then relies upon the further expansion of credit in order to service existing debt and provide liquidity. If compounded interest is also taken into consideration the problem is far worse. One anti-usury campaigning publication has likened this (impossible) credit process to a game of 'musical chairs' where the inevitability of default is intrinsic to the system as someone is expected to be left 'without a chair' (Shakespeare & Challen 2002: 31). In addition, the power to grant or decline credit confers substantial powers to bank decision-makers. In short, as credit-money grows in relation to fiat money, the problem deepens. At the time of WWII, base money (mainly notes and coins) constituted a sizeable proportion of the money supply whereas it now only constitutes 3% in the UK, and less than 1% in the US (Shakespeare & Challen 2002: 35). Firms, consumers and governments all need to find additional revenue in order to meet debt interest payments and this puts substantial pressure on prices, resources and the environment (Adams 1991; Kennedy 1995).

Yet, in spite of these understandings, all of these approaches seem to have missed the importance of the *lack* of currency diversity, as a key contributing factor to systemic instability. A single (credit-money) currency creates a dependence that often becomes the root of the problem in a financial crisis. This idea draws on the work of Hayek *et al* who had posited the dangers of centralized planning in general, suggesting that inefficiency and information deficiency hindered effective decision-making. Hayek extended this idea to the fragile functioning of a single currency (credit-money) system and, consequently, recommended *free banking*, which encourages currency diversity, instead. The greater competition would (he argued) lead to the more appropriate (and trusted) currencies becoming established and sustained (Austrian-influenced monetary thinking tends to favour commodity monies) at a community level (Hayek 1990). When referring to the greater use of bank deposits (as money), and the society dependence on [single currency] credit from banks who (in turn) need to ensure their adequacy of reserves, Hayek pointed out that this would lead to liquidity fluctuations and a disturbed business cycle (Kresge 1999: 193):

> This unfortunate development came about because for a long time it was not generally understood that deposits subject to cheque played very much the same role [as banknotes], and could be created by the commercial banks in exactly the same manner, as bank notes. The consequent dilution of what was still believed to be a government monopoly of the issue of all money resulted in the control of the total circulation of money being divided between a central bank and a large number of commercial banks whose creation of credit it could influence only indirectly. Not till much later did it come to be understood that the 'instability of credit' [R.G.Hawtrey] under that system was a necessary outcome of this feature; that liquid means was mostly supplied by institutions which themselves had to keep liquid in terms of another form of money, so that they had to *reduce* their outstanding obligations precisely when everyone else desired to be *more* liquid. By the time this kind of structure had become so firmly established that, in spite of the 'perverse elasticity of the supply of credit' [L.Currie] it produced, it came to be regarded as unalterable. Walter Bagehot had clearly seen this dilemma a hundred years ago but despaired of the possibility of remedying this defect of the firmly established banking structure. And Wicksell and later von Mises made it clear that this arrangement must lead to violent recurring fluctuations of business activity – the so-called 'trade-cycle'…Not the least advantage of the proposed

> abolition of the government monopoly of the issue of money is that it would provide an opportunity to extricate ourselves from the *impasse* into which this development had led.

In an unlikely alliance (albeit in different centuries) between progressive forces on opposing sides of the traditional right/left paradigm, Marx had also commented on the folly of dependence on single (credit) currencies and the instability that ensued (Marx 1981: 678):

> Talk about centralization! The credit system, which has its focal point in the allegedly national banks and the big money-lenders and usurers that surround them, is one enormous centralization and gives this class of parasites a fabulous power not only to decimate the industrial capitalists periodically but also to interfere in actual production in the most dangerous manner – and this crew know nothing of production and have nothing at all to do with it

Hayek's notion of competitive *free banking*, as Boyle notes, also extended beyond national systems to the promotion of *free* competition to the international dimension in order to achieve overall stability (Boyle 2002: 157). Other thinkers have also suggested developing *transnational* money systems, as competition to volatile national (single) currencies, such as Keynes' *Bancor,* Lietaer's *Terra* or the recent calls for a revamped IMF special drawing right (Thirlwall 1985; Lietaer 2001). Yet, if these monies were to become pervasive the issue of dependence on a single entity (particularly if used extensively by the public) would remain. So, how will currency diversity improve on these single currency systems?

DIVERSITY AND RESILIENCE

Bernard Lietaer, a recognized authority on corporate and social complementary currencies, has illustrated the deficiency of a mono-monetary-culture with reference to evidence from the natural world. Bernard describes how that, in order to be sustainable, an eco-system requires a measure of diversity and inter-dependence that provides what could be termed a 'slack', enabling the system to cope with change (Lietaer 2010). He describes that, in contrast, our monetary system is a mono-culture, driven by an ideology of efficiency. Whilst this works well in some contexts, it copes very badly with change or unexpected random shocks. He suggests instead that the development of complementary currencies, serves to enhance the ability of the capitalist order to facilitate sustainability (and stability) through its capacity to adapt. Bernard suggests that the reason for the myopia is the inability for the West (or rather the market economic system) to appreciate the philosophical Chinese tradition of Yin-Yang. The unity (and necessity) of opposites, such as *efficiency* and *resilience* for instance, in a complementary optimal balance, is preferable, he argues, to the notion of competing ideological forces (Lietaer 2010). If the appreciation of this concept forms the foundation of monetary policy philosophy it is likely, it is posited, to facilitate the formation of currency diversity and subsequently form systemic resilience. Science informs us (in information theory) that in complex flow systems, an eco-system's capacity to undergo change depends on the two components of order *and* disorder. The first component, the *Yang*, is called 'mutual constraint' (throughput efficiency) and quantifies the 'regular, orderly, coherent and efficient', in other words the concerns of mainstream science (Lietaer 2010). The second component, the *Yin*, is called 'conditional entropy' (disorder) and this represents the 'irregular, disorderly, incoherent and inefficient', which is often not quantified by traditional scientific study. Whilst conditional entropy appears to be of minimal value, in reality this often forms the factor which enables a system to 'adapt to changing environments, or survive unexpected challenges' (Lietaer 2010). The empirical studies undertaken on complex real eco-systems also support these findings (Ulanowicz 2009). When applied to a monetary system, of course, this means that the existence of complementary currencies may appear to be of minimal value at a macro level, but they are able to provide substantial automatic

stabilization (counter-cyclical tendencies) during a financial crisis (Freire 2009). Bali, for instance, has a popular and prolific parallel currency in existence that would probably be able to replace the official currency if it ever became necessary (Lietaer 2003). Historically, many different corporate and social currencies, such as LETS and Time Dollar schemes, have emerged (Greco 2001). Germany and the United States, for instance, have had a particular preponderance since the 1920's (Boyle 2000; Schroeder 2006). The financial authorities usually do not object to these social schemes, provided they are tax efficient (providing a net gain to the state) and remain small (Schraven 2000). Yet, since LETS scheme transactions rarely detract from commercial activities (subject to tax), that would otherwise naturally occur, this is unlikely (Seyfang 1997).

Business networks have also created their own monetary systems. An example of a complementary money-system for businesses is the '*Wir*' system in Switzerland. Wir, short for *Wirtschaftsring* (economic circle), is Europe's oldest barter network and is aimed specifically at small to medium-sized companies. By 1993, it had a turnover of £12 billion and 65,000 corporate members (Boyle 2002). In addition, these complementary currencies, whether from corporate, local authority and/or grassroots sources, have (notably) received more interest of late as a result of the widespread uncertainties surrounding the financial systemic vulnerabilities and the impact of capitalist globalisation (Lietaer 2001; Freire 2009).

INFORMATION AGE TRANSFORMATION

Corporate and social innovation, in the Information Age, has led to new channels of financial circulation that are currently transforming money and banking (Adams & Mouatt 2010a, 2010b). The companies likely to succeed in this environment, as Lietaer has noted, are the ones most able to combine (electronic) knowledge systems with production. If this is extended to the development of corporate monies, banks and payment systems this will further strengthen their competitive position (Lietaer 2001). It appears, therefore, that the normal *modus operandi* of competitive global capitalism (i.e. profit-seeking) is driving these monetary processes.

As a consequence, nonbanks are playing increasingly significant roles in the financial world. Bradford *et al* have examined the function of payment activity, both in traditional and emerging systems. They discovered that non-banks have developed complex relations with banking institutions and payment system users. In addition, since they are rarely directly involved with final settlements, they appear (at least) to be less associated with systemic risk. In reality, however, both banks and nonbanks are susceptible to operational risk factors (Bradford 2003). A similar study by the European Central Bank and Federal Reserve Bank of Kansas City further confirmed the growing importance and influence of nonbanks (ECB/FRBKC 2007: p 45):

> Retail payments systems throughout the world are undergoing fundamental change. Traditional paper-based forms of payment are giving way to electronic forms of payment. Technology advances are making possible new front-end payment instruments and new back-end processing methods. New products, business models, new markets, and new alliances are an everyday occurrence.

Many non-financial corporations have also experienced a relative competitive advantage during the Information Age. The margins on internet payment transactions, for instance, are lower than ones for traditional electronic retail banking and the non-bank corporations, through financial innovation, are therefore able to further encroach upon traditional bank business. Another feature of the new financial landscape is that retailers have diversified into financial services, challenging banks in their own core markets. Since retailers have strong

brands and customer responsiveness they often have stronger market knowledge. Yet, as Welch and Worthington have identified, retailers have so far adopted a selective approach to the provision of financial services and so do not yet cover the wider range offered by banks (Welch & Worthington 2007). Notwithstanding, the retailer threat to retail banking is likely to continue, since retailers have stronger customer relations, provide services and tie-in customers with reward schemes. In addition, since a customer is more likely to meet a retail manager than a bank manager they may prefer to bank with them. This can (arguably) sustain stability in the general economy, since money and finance (agents) are now more integrated with the circulation of commodities, in contrast to an autonomous financial sector. Conversely, the traditional bank trend has been towards cash machines (ATM's) and 'distance banking', driven by cost-saving motives, so that bank-customers now rarely get to see any banking personnel. In direct contrast, retail customers regularly visit their preferred retailer for weekly groceries, or for a variety of other goods such as medicines, mobile phones, kitchen items, white goods, electronics goods, books and compact discs. Much financial innovation by non-banks, therefore, has been facilitated by the development of closer customer interaction.

Yet, retailing is not the only threat to the commercial and investment bank sectors. Car manufacturers, for instance, have found that the development of finance houses, for car credit, has been an antidote to tighter margins in recent years. The success of GM capital provides an example of the rise of multinational corporate finance houses (Houghton-Budd 2005). Another threat to traditional banking (but arguably not to society), is the development of complementary currencies. Edward De Bono, whilst writing for the Centre for the Study of Financial Innovation, had proposed the (future) establishment of an 'IBM Dollar' or large corporation Dollar that might appear in generalized circulation. The idea was that a corporate currency could be linked to (future) company products and, a secondary market (and convertibility) would ensure minimum risk for holding. In this manner, the tied-currency could insure against inflation (Bono 1993). Boyle has also mooted a similar idea for a future money-system for large urban centres, such as London. The municipality would form a 'regional-corporation' covering significant expenditure items within the geography, such as transport and local economic exchanges (Boyle 2000). The Oyster transport card system in London is an example, or the Octopus card in Hong Kong, which can also be used to purchase non-transport items. Similar systems have been applied in other cities around the world, one of the most recent being in Dubai (Octopus 2007).

Large cities could also have, as stated, enough participation (and economic activity) to generate their own duel currency to compete with, or complement, the existing formal currency system. Yet, the same may also be true of dispersed groups that engage in mutual exchanges, say commercial or socializing networks that use the Internet to shrink the distances between the participants. Technology innovations are set to continue, of course, making deep changes in the financial services sectors. The next technological evolution of the Internet – Web2.0, for instance, is set to have a big impact on the range and type of financial services that will emerge, as well as bringing in even more new entrants to the financial services market place (Towell 2007). Whilst this might compromise internet *neutrality*, the equality of broadband width access of corporate and non-corporate users, it should also strengthen these corporate and social processes outlined. Some networked (corporate) financial systems have already emerged, for instance, with a host of voucher systems such as Tesco Clubcard, Wal-Mart vouchers, Airmiles and the 'One4all® Gift Voucher' (One4all 2008). These systems are driven and supported, of course, by the information age and associated communication technology that has been developed.

CONCLUSION

Most reformist ideologies, that have been seeking to transform national (or global) financial systems, including those from the traditional left/right paradigms, seem to have ignored the mono-culture of single currencies that exists. It is recognized, in line with Marx's critique of Proudhon, that monetary reform *per se* will not eliminate all of the ills of capitalism (Neary 1998). Yet, this paper has argued, that the creation of currency diversity leads to monetary resilience therefore creating a more stable future capitalist order. There is also substantial evidence to support the proposition that complementary currencies are increasing as communities seek self-financing arrangements and a break from the dependence on a single currency (DeMeulenaere 2008). In the early 1940s Hayek produced an influential work, *The Road to Serfdom*, and his later more academic work, *Individualism and Economic Order*, which both highlight the dangers of a drift towards totalitarianism from both the extreme left *and* right and, the need for individual freedom and competition for a stable society. The current high levels of indebtedness by citizens and governments, however, indicate that societies are facing a different type of serfdom in which the balance of power has shifted towards the unconstrained financial markets. If we consider, for instance, the $4 trillion (mostly speculative) daily foreign exchange trading (and short-selling) taking place today, and its impact on spot exchange rates, as well as unprecedented indebtedness, it is not easy to under-estimate the social power of modern finance. This paper has hoped to provide perspective on how global society became locked into financial serfdom at the behest of a private cartel of transnational mega-financial institutions and a mindset of debt, as well as providing a roadmap of how to break out of the serfdom. A key feature of the posited emancipation is the need for *free* currency competition, within and to the financial sector, in order to facilitate a stable capitalist order for the future.

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