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## Economic Thoughts and Theories of S. Gesell and Local Currencies

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In this paper, historical significance of ideas and practices of local (or community) currencies are examined, starting from economic thoughts and theories of Silvio Gesell (1862-1930), whose influence has been remarkably great in many practices of local currencies. It intends to seek a possible strategic component for alternative way-out from neoliberalism beyond conventional 20<sup>th</sup> century models of social democracy and socialism.

### 1 Silvio Gesell revisited

Silvio Gesell (1862-30) was a successful German businessman in Buenos Aires, and began to study monetary problems led by crisis of the late 1980s. He was attracted by P. J. Proudhon (1809-65) and H. George (1839-97), but also studied A. Smith and K. Marx among others. After publishing six books, he came back to Europe in 1900, and prepared the major work *Die natürliche Wirtschaftsordnung durch Freiland und Freiegeld* (1916), which was translated (by Philip Pye) and published in English with a title *The Natural Economic Order* in 1929. In 1919 he joined the Soviet Cabinet of Bavaria as the Minister of Finance. The cabinet was, however, too short-lived for him to realize his ideas to construct socialism through monetary and land reform.

According to Gesell, the direct economic aim of socialism is to abolish surplus value or unearned income such as ground rent and interest. This aim should be achieved by maintaining human freedom and fair competition founded upon egoism in a market order.

In order to abolish ground rent as unearned income, nationalization of land is necessary. It is to be achieved through offering certain amounts of state bond to private owners of land corresponding to available ground rent for each piece of land. A fair bid is then open for all social members competitively so as to determine who can utilize each piece of nationalized land. The resultant payment of rent to the state is to be redistributed to all mothers in proportion to their number of children (just like a sort of basic income).

Gesell's idea to nationalize land follows H. George and does not seem particularly unique in a long tradition of socialism. In contrast, Gesell's thoughts and theories of money and interest are quite original.

In his view, traditional money (either metallic money or convertible bank notes) has a special advantage over all other commodity products physically not to decay or rust, and

thus does not need any storage or carry-over cost. Therefore such money can easily be withdrawn from a market without loss, while other commodities are enforced to be exchanged with money in fear of losing values. Under the circumstances interest is obtainable to money owners like merchants when they exchange their money with other commodities as concession or special reward offered by commodity owners. The ordinary rate of interest has historically been around at annual rate of 4-5% since ancient period.

Thus, in order to abolish interest as unearned income, traditional money has to be converted into 'stamp money', which need carry-over cost like other commodities in a form of duty to stick stamp of one thousandth amount of face value of paper money weekly (for example ten cent stamp has to be stuck weekly to a hundred dollar note so as to make an annual rate of 5%). Stamp money would no longer be able to demand interest, and must continuously stay in a market to be exchanged. Thus it must solve also a decisive cause of depression due to money hoarding.

J. M. Keynes' *General Theory of Employment, Interest and Money* (1936) highly estimated Gesell by giving him 'a disproportionate space' of five pages, and stated as follows; 'Gesell's main book is written in cool, scientific language'. 'The purpose of the book as a whole may be described as the establishment of an anti-Marxian Socialism, a reaction against *laissez-faire* built on theoretical foundation totally unlike those of Marx in being based on repudiation instead of on an acceptance of the classical hypotheses, and on unfettering of competition instead of its abolition. I believe that the future will learn from the spirit of Gesell than from that of Marx.' (p.355)

Keynes clearly shows here his favour to socialism based upon a competitive market. Also among liberalist socialists, Gesell has been respected as 'Marx for anarchism', and his main book as '*Capital* for anarchism'.

However, in most of 20<sup>th</sup> century, Marxian political economists tended to believe that the Soviet type of centrally planned economy without competitive market is an orthodox form of realization of Marxian socialism. They used to refute a tradition of anarchist socialism which emphasized significance of individual freedom and spontaneity in the future socialist society as well as in the process of social revolution. Thus Gesell was also either neglected or negated as a Utopian socialist by Marxian theorists who supported the second or third International.

After the collapse of the Soviet model of socialism, Marxian political economists become aware the importance of integrating real freedom and spontaneity of individual persons in various 21<sup>st</sup> century models of (market and associational) socialism for the future. In this regard, there are wide-spread expectation and actual need for, as D. Harvey (2011, chap.8) suggests, cooperation or re-convergence between Marxism and anarchism by overcoming the historical unhappy split since 1872 when K. Marx and M. Bakunin got divided. It is therefore high time for Marxian political economists to reassess Gesell's socialist thoughts and theories.

Gesell's spirit and idea to achieve socialist aim to abolish surplus value as unearned

income in combination with individual freedom and spontaneity must now be broadly agreed by not just Keynes but also Marxian political economists who are in favour of market socialism. Even Marxian socialists, who would like to reduce the role of competitive market so as to increase the role of associational planning for the future, would now expect to build in a socialist economy some sort of motivation for innovation through decentralized economic activities among workers collective types of competitive firms.

Either in market socialism or in more associational socialism, Marxian socialism is conceived in general to be founded upon public ownership of major means of production, not limited to land unlike in Gesell's socialism. Upon this conception Marxian socialism is clearly separable from social democracy, where private ownership of major means of production is presupposed within a framework of a capitalist society. This distinction, in my view, is common to Marxian political economists, whereas D. Harvey occasionally uses the word socialism as synonymous with social democracy within capitalist societies, in distinction from anti-capitalism or communism.

Although Gesell's socialism is suggestive for us to rethink 21<sup>st</sup> models of socialism, it contains several weaknesses and issues to be discussed further for the future societies. Let me summarize them on topics concerning profit, ground-rent and interest.

**On profit:** Gesell limits to ground rent and interest to abolish as unearned surplus value for socialism. He neglects a more fundamental form of surplus value in a capitalist society as profit. Although he borrows the notion of surplus value as unearned income from Marx, he does not follow Marx's labour theory of value to explain the social source of surplus value in a capitalist economy including profit, ground-rent and interest as a result of exploitation of surplus labour of wage workers.

By following the fetishized superficial theory of prices just underlining the balance between demand and supply in market, Gesell understands that surplus-value accrue to capital is just interest. Capitalists' earning beyond paying out interest (even to his own capital) and ground-rent is regarded as wages for their managerial work being determined by the demand and supply relations in a market. At the same time, in his theory, the social relation between capitalists and wage workers is described as if it were just the relation of circulation between merchants and independent small producers, not of production or labour process.

As a result, Gesell, by following the anarchist tradition, tends to neglect the exploitative and despotic order at workplaces in the relations between capitalists and labourers, and to treat wage-workers as if they were free and independent producers just like professional artisan or craftspersons. Even when the rate of interest is reduced nearly to zero, just as in the recent Japanese economy for many years, surplus-value in the forms of dividend, retained reserve fund and high rewards to CEO and other managers of capitalist corporations continue to be earned and distributed from

corporate profit. Thus a wide gap of income distribution between capitalists and workers class would not disappear just by reduction of interest rate.

Therefore Gesell's argument is at least insufficient as a theoretical foundation for socialist aims to achieve egalitarianism and economic democracy by abolishing exploitation of workers and the whole unearned income.

**On ground-rent:** As for Gesell's argument for nationalization of land so as to abolish ground-rent as private unearned income, there are two points to reconsider.

First, as private ownership of land is a historical precondition for capitalist economy by creating wage labourers who are 'free in the double sense' (freely disposable of his/her labour-power as commodity, and dispossessed of means of production to realize his labour-power), as Marx clarified in his analysis of 'primitive accumulation of capital'. It must be quite difficult to abolish and nationalize such a core foundation for capitalist economy while maintaining private ownership of all other means of production untouched for capitalists.

If socialist consciousness among people becomes elevated and mature enough to enable nationalization of land, it may also enable to socialize other major means of production. Indeed if other means of production remain in the hands of capitalists, a bid for determining who can use each piece of nationalized land would function as a favourable system for capitalists or their companies to bid off most of desirable pieces of land. It cannot form a substantially egalitarian and fair distribution of land.

Second, Gesell's proposal to offer state bonds to land-owners as compensation for nationalization of their land so as to get consensus at their own free will would not actually practical. Especially if ground-rent state revenue from nationalized land is distributed to mothers as child allowance like a sort of basic income, as Gesell recommends, nationalization of land must resultantly increase state debt one-sidedly and may probably lead to a budget crisis of the state. Furthermore if state bonds continue to pay interest to owners from tax revenue, they must reproduce uneven distribution of income.

From a more fundamental anarchist belief in free and egalitarian individual human rights, is it not more actual and appropriate to set up a high rate of inheritance tax on land as a policy means to realize nationalization of land in a market economy?

**On interest:** According to Gesell, there were six types of theories to explain why can a capitalist receive interest, as Boehm-Bawerk (1884, 1889) described; i.e., ① theories of fructification, ② theories of productivity, ③ theories of utility, ④ theories of abstinence, ⑤ theories of work (of a capitalist), and ⑥ theories of exploitation. None of these are satisfactory in explaining why interest can be obtained in various cases broadly observed from very ancient period. His unique alternative theory of interest is thus presented here to explicate the cause of interest from universal human psychology

concerning the physical nature of traditional money not to decay or rust against all other commodities.

Gesell's theory of interest, however, does not seem very persuasive. Since the advantageous position of merchants to get concession in purchasing prices as interest due to such physical nature of money may be lost when they sell purchased commodities to money owners. Also the similar physical nature not to decay or rust is not limited to money but common to some other commodities such as jewels, precious metal, and trustworthy debentures, and cannot explain the cause of interest as a purely monetary phenomenon.

As an additional evidence Gesell refers to historical facts that money lending from ancient ages always used to cause interest of about 4-5% standardized annual rate, to show an universal human psychological tendency in handling money with a special nature. However, in my knowledge, it was not rare to see historical experience where interest was not paid usually for borrowing money, or even prohibited morally or religiously within communal human relations. In a commodity economic order, which originated and grew as an inter-social economic relationship, as Marx pointed out, the form of interest did certainly existed broadly from ancient ages. However, the rates of interest in case of typical usury in pre-modern ages were much higher, expropriatory, and destructive for borrowers.

Thus, we have to admit that theoretical attempts, including Gesell's, to explain an universal rational foundation as well as a standard level of interest common in various historical ages are difficult or infeasible. We had better to follow Marx's approach to recognize the existence of the form of interest-bearing capital universally in a market economic order originating from inter-social transactions, and to analyze the rational ground, or social substance, functions and levels of interest within a capitalist economy.

In such Marxian approach, by succeeding Classical political economy, the determination of general rate of interest is separated from that of general rate of profit. While there is a solid theory of determining a general profit rate according to basic objective social and technological conditions of production, the general rate of interest is analyzed to be determined relatively independently by social balance between supply of and demand for loanable money capital in a money market. The general rate of interest fluctuates in the changing phases of business cycles, regularly even to the opposite direction from the motion of the general rate of profit toward the end of prosperity and crisis in a typical classic business cycles, though a lowered rate of interest in depression expresses and cannot easily solve the lowered rate of profit due to stagnation of industrial capital accumulation.

Upon the ground of such a basic theory of interest, Marxian approach can theoretically easily permit feasibility of Keynesian political monetary operation of interest rate under the certain historical and contemporary contexts. We are now experiencing that a political operational reduction of interest rate even nearly to zero is

achievable not just by Gesell's idea of 'stamp money'. However its result is far from Gesell's idea of socialism to extinguish surplus-value and exploitation. It is rather utilized to rescue and help wealthier asset owners in the process of unstable world economic crises, by widening unevenness between 99% and 1% of people, in a way very different from social democracy, and combined even with neo-liberalism like in recent Abenomics in Japan.

Thus Gesell's proposal to reduce or abolish interest cannot be a decisive means to realize socialism. We should note that an extremely lowered rate of interest in our age also has unfavourable effects of income redistribution against deposit, pension fund and insurance fund being saved from wages of labourers. As an indirect effect, the lowered rate of interest easily facilitate and promote cumulative public debt through unstably repeated crises and resultant emergency economic policies, with a tendency to re-strengthen neoliberal austerity policies.

In the 21<sup>st</sup> century models of social democracy and socialism, it must be carefully reexamined how to utilize Keynesian monetary policy means to operate interest rate so as to achieve social security, welfare, economic democracy and egalitarianism for working people away from such a neoliberal trend in our age, rather than how to abolish interest by following Gesell's idea. At least we should note that Keynesian policy devices can technically be combined with neoliberal market fundamentalism to enforce worse conditions of employment with reduction of social welfare for majority of workers, and thus cannot guarantee by itself social democracy, not to mention socialism.

## **2 The ideas and significance of local currencies**

### **The first wave of local currencies in the 1930s:**

Gesell's idea and theory of monetary reformation were put into practice in the attempts to organize local (or community) currencies in order to cope with economic crisis after 1929, already prior to Keynes's favorable estimation of them in his main work (1936) as we have seen.

According to Lietaer (1999) and Nishibe (2002) for instance, an owner of coal mining company in a German local town Shwanenkirchen and a follower of Gesell started to issue stamp paper money 'Wara' which is guaranteed by official money Mark and exchangeable with coal, so as to continue his business and employment under the heavy pressure of economic crisis. Then retail shops, other producers in the same town began to accept Wara to sell their commodities, and the local economic circulation was reactivated and expanded by reducing unemployment.

The success of Wara was rapidly imitated by not a few local companies and shops and more than 2000 cases of similar local currencies were organized. In November 1931, however, German government declared that local currencies were illegal to be repealed, so as to effectuate the national reform of currency system.

In Austria, a mayor of local town Vörgl and also a follower of Gesell issued in 1932 stamp paper money 'labour certificate' in order to cope with the budget crisis of the town, used it for payment of wages for mobilizing unemployed workers to public works, as well as for one half of wages of civil servants of the town, while accepting it for local tax payment. This trial was effective since the stamp money circulated 14 times faster than conventional national currency, and served to increase effective demand and to revive the local economy of the town.

Many visitors came in from other areas to learn and introduce the similar local currencies. About 200 towns were going to issue stamp local money. Then Austrian central bank prohibited them by exerting the monopoly right of issuing currency. Though people protested against it and sued the central bank, they lost the suit at the Supreme Court.

In the USA, Canada and Mexico thousands of local currencies were generally called 'scrip' and mostly successfully utilized. I. Fisher (1933, for instance) at Yale University supported these attempts by estimating Gesell's theory of stamp money, as Keynes (1936) referred to him as an exceptional academic economist to have recognized effectiveness of Gesell's idea. He tried to persuade Dean Acheson, Under Secretary of Treasure in F. Roosevelt government, by arguing that a monetary reform for stamp money must be a policy device to get away from the great economic crisis. However, President Roosevelt forbade scrip as a part of his centralized New Deal policies.

Similar local currencies in the early 1930s were seen also in France, Denmark, Italy, Netherland, Spain, Sweden, Baltic States, and China.

Not a few of them followed Gesell's idea of stamp money so as to accelerate circulation of money and thus to increase effective demand, to reduce unemployment and thus to mitigate economic depression. They were practiced more or less within local communities and mostly successful in reactivating local economies.

In contrast, Gesell argued for his monetary reform as a larger-scaled project for the whole national (and further international) economy to realize socialism. Therefore, there can be an interpretation that Gesell himself must be against local currencies (i.g., Hirota, 2009). But an anarchist spirit since Proudhon would reject statism, prefer grass-root people's cooperation to set up local currencies for communities, so as to reduce the roles of the states, and may suit better to Gesell's fundamental position.

Anyway, the first wave of local currencies in this period did not last long. Most of local currencies set up at the early 1930s were forbidden in the process of establishing centralized state control of currencies and national economies either of New Deal or Fascist type, though there were a few exceptions like Via in Switzerland continuously functioning as a surviving community currency until today. This history reflected a tendency in the capitalist world, rivaling with the Soviet type of statist socialism, to form a statist control and management of national economies at that age.

### **The second wave of local currencies since the 1970s:**

After several decades, the second wave of local currencies has globally surged up in our age of continuous economic crises and restructuring since the 1970s. The number of local currencies grew rapidly especially since the 1990s, and reached several thousands in the world, and more than five hundreds just in Japan.

There have been a series of social backgrounds which necessitated and promoted the attempts of local currencies as a form of cooperation among people in local communities. The continuous unstable economic depressions tended to destruct particularly economic activities and employment in many local areas. Thus an increasing number of people have suffered from widening uneven income distribution, unemployment, and new forms of poverty like working poor, while welfare state policies were cut down in the tide of neoliberalism. The difficulties of single mothers and single elderly persons who need cares but cannot easily rely on their family nor relatives, nor on the social welfare support also have increased.

Thus local money began to be organized as a renewed attempt to activate economic circulation within a local community, and to promote mutual help by exchange of services and labour products outside of conventional capitalist market system. For instance a person who can afford time to offer care work would obtain local currency in exchange for his/her care service, and deposit it for the case he/she needs similar care.

Usually promoting agents of such local currencies are some grass-root members who volunteer for cooperative revival of economic life of communities. It is not rare that local chamber of commerce and industry or other association of local business firms comes in to cooperate with the project of local currency so as to reactivate economic activities of the area. Also central and local administration sometimes support the projects of local currencies as a supplementary means for reduction of public welfare services under the pressure of budget crisis.

In a certain design of local currency such as 'eco-money' including a point system or donation system to promote business firms or community members' actions for ecological problems, the organization of local currency would indeed serve also for the state policy for green recovery. Thus the ideas or aims of contemporary local currency have much widened than those in the 1930s.

At the same time recent organizations of local currency are largely facilitated by development of information technologies such as personal computer and mobile phones. Their forms are no longer limited to stamp paper money, but multiplied. For instance cases of Local Exchange Trading System (LETS) organize mutual debit account system through computerized records, without issuing paper money.

In most cases of recent local currencies either in LETS type or in paper money type, interest is not paid for saving or debt, by following Gesell's idea. However, those to charge minus interest rate such as stamp money in Gesell's model became rare.

At the same time quite a number of recent local currencies intend to organize equal



exchange of labour time by using labour time as unit of account, or setting money unit proportional to labour time (say 10 dollars per one hour of labour) such as in the case of Ithaca-hour since 1991 in the USA or Toronto-dollar since 1998 in Canada. This idea is disconnected from Gesell's, and rather follows the genealogy of labour money presented by Ricardian socialists, and R. Owen. In this genealogy, abolishment of surplus value based on exploitation of surplus labour (according to the labour theory of value) used to be targeted for socialism.

Marx (1867, note 1 in Chap.3) criticized Ricardian socialists' idea of labour money as utopian, so long as they left the anarchical capitalist system of production untouched, or the difficulty of adjustment between demand for and supply of commodities unsolved. On the other hand, he estimated Owen's practice of labour money which was grounded on an associational social system of production.

Actually it must be difficult to solve the problem of how to adjust the balance between the demand for and supply of various kinds of commodities and services just within the local currency system. However, so long as the system is working in combination with the external broader conventional market, the difficulty must be mitigated, as the excessive commodities and services within the local currency system can be sold in the external market, and those in short supply internally could be obtainable externally.

At the same time, an essential precondition for the success of local currency especially with an idea to realize equal exchange of labour must be associational cooperative spirit among participant members, though the local currency would not require Owen's type of associational society with coordinated (planned) system of production. Especially in estimation of different sort of concrete labour, the associational spirit to recognize mutual contribution of homogeneous abstract human labour equally according to labour time, not being weighted according to the balance between demand for and supply of certain sort of labour unlike in a conventional market, must be most desirable and easiest way to establish economic democracy among participant social members.

In the so-called transformation controversy on Marx's labour theory of value, it was commonly recognized among all participants including non-Marxist scholars such as P. Samuelson (1971) that equilibrium market prices must realize equal exchange of labour embodied in commodities (and services) in an economy based upon homogeneous labour-input without performing surplus labour. The attempts to organize equal exchange of labour time through local currencies can rely on this theoretical recognition.

As for the means of production obtained from the external market, labour time embodied in products or services within a community which were necessary to get them in exchange can be counted as necessary labour time internally to produce those means of production.

In many attempts of local currencies various different kinds of concrete useful labour including complex or skilled workers' are generally treated as homogeneously equal

labour without giving different weight for the same physical hours. On the one hand, this treatment seems deviated from Marx's suggestion that skilled or complex labourers expend labour time more than simple labourers in accord with the higher value of their labour-power due to educational or training costs. But on the other hand, it is consonant with Marx's more fundamental theoretical recognition that human capability to work is different from other animals, widely applicable to different sorts of useful labour upon the basis of mental ability to conceive and execute, and in such common quality performs homogeneous abstract human labour, together with concrete useful labour, and also that the value of labour-power, unlike that of means of production, cannot be transferred to labour products. In my view, recent attempts of local currencies to organize equal exchange of labour are given a theoretical foundation by this line of Marx's fundamental recognition, rather than by his somewhat problematic suggestion that skilled or complex labourers expend labour time more than simple labourers in the same hours (cf. Itoh, 1988).

So long as the educational or training costs for socially necessary sorts of complex or skilled workers are to be born individually, not socially, the higher wage or remuneration must be offered even within a local currency community as well as in the conventional market so as to enable to reproduce and supply of such sorts of workers. This aspect should, however, be separated from the substantial social contribution of their labour time in comparison with ordinary unskilled workers as a secondary issue.

Anyway, it is noticeable that local currencies, which used to be prohibited in the 1930s, are broadly permitted and growing in our age as promising attempts to reactivate cooperative economic activities in many communities. What does it mean for the present and future world? For the capitalist world, it seems to exemplify a turning point from an integrated economic management by nation states which rivaled with the Soviet type of statist socialism. Especially in the process of globalization of capitalist economy, economic crises have to be dealt with more and more by transnational political coordination through summits and international organizations, and further by super-national integration like EU. At the same time, political economy how to revive local areas as relatively autonomous communities has gathered broad attention, by demanding more of decentralization and aiming at more of self-supportive cooperation within local societies.

Correspondingly, money became diversified and not limited to currencies controlled and managed by nation states. While Euro was created by super-state regional integration, and has induced similar ideas in other areas, local currencies have also been born in many countries as complementary community money, and often expected even by the central governments as devices for economic recovery and social security beyond the limit of state economic policies.

Thus, mutual roles and relationships among market economy, nation states,

enterprises, transnational world order, and local communities are in a complex process of transformation. Propagation and growth of local currencies show this process in interestingly spontaneous and more or less anarchical attempts among people to reform communal societies.

In such a context, the social thoughts and theories for local currencies must be suggestive also for reconsideration of 21<sup>st</sup> century models of social democracy and socialism based upon the changing capitalist economies in our age.

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