

Profit and utility



Figure 1) profit and utility - title and logo

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Abstract: *Humanity is faced with the challenge of changing the way we act. Sustainability and solidarity is the survival strategy and must be placed in the foreground as utility, profit becomes less important. My paper deals with the question of making sustainability and solidarity affordable.*

The basic idea is to split the price into a part that we can influence ourselves and another part that we have to accept due to globalized markets. The allocation takes place in a complementary currency. The paper outlines a global standard for local currencies and would like to be the basis for further discussions.

The paper outlines the most important elements of a standard:

- *Creation of complementary money through the sale of sustainably produced goods and services based on solidarity*
- *Minimizing transaction costs through mobile payment and blockchain technology*
- *The goal: Promotion and financing of solidarity and sustainable trade by increasing the speed of capital circulation with measures like demurrage money and beneficial use of savings.*
- *Rules for import and export with global markets. Application of the cooperative principle for buying, living, land. A figurative analogy is the metabolism of a cell.*
- *Chances of profit for the system provider and cost advantages for the world market*
- *What requirements do the users of such a standard have to meet? Finding the perfect community*

Keywords: *local payment scheme; complementary currencies; social intelligence; mobile payment; blockchain*

the challenge

- profit oriented global markets lead to
 - huge assets on one hand
 - lack of money on the other hand
 - a decrease of money circulation
(equation of exchange / Milton Friedman 1987, "quantity theory of money", in *The New Palgrave: A Dictionary of Economics*, v. 4, pp. 3–20)
- how can we keep money in circulation?

Figure 2) the challenge - how to keep money in circulation

The profit orientation of global markets leads to

- huge assets on one hand
- lack of money on the other hand

Lack of money leads to a decrease in transactions and economical activities, described as a decline of money circulation in the equation of exchange (Friedman, 1987).

This leads to the most challenging question in modern monetary theories, how can we keep money in circulation.



Figure 3) Oxfam - global wealth distribution

“Last year saw the biggest increase in billionaires in history, one more every two days. Billionaires saw their wealth increase by \$762bn in 12 months. This huge increase could have ended global extreme poverty seven times over. 82% of all wealth created in the last year went to the top 1%, while the bottom 50% saw no increase at all.

Dangerous, poorly paid work for the many is supporting extreme wealth for the few. Women are in the worst work, and almost all the super-rich are men. Governments must create a more equal society by prioritizing ordinary workers and small-scale food producers instead of the rich and powerful.”(OXFAM, 2018).

the social impact of complementary economy

- Complementary economy is for those who want to take responsibility for our life and our environment.
 - counterpart to globalization
 - opportunities for degrowth
 - business becomes more self-determined (helping people help themselves)
 - positive influence of self-determination on environment (economical, ecological and social)
- The complementary payment scheme is the platform for financing and maintaining the complementary economy.
- complementary economy is a more local economy used worldwide



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Figure 4) the social impact of complementary economy

Complementary economy is for everyone who wants to take responsibility for life and environment. This payment scheme is the platform for financing and maintaining complementary economy.

Complementary economy is the counterpart to the globalized economy, offers opportunities for degrowth.

Life becomes more self-determined and self-determined behaviour influences our environment in a positive way, economical, ecological and social.

People's needs are in their surroundings. Therefore, members of a complementary economy will act locally. Nevertheless, the payment scheme can be applied worldwide.

The Idea



- Encapsulation of capital in a complementary monetary scheme
 - to create a closed loop for money circulation
 - to delay escape of capital
 - to increase velocity of money circulation
 - to use the capital in a more sophisticated way

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Figure 5) the idea - encapsulation of capital

The original idea considers the demand of global and complementary business in such a way as to separate the price of goods and services into two parts, one global part and one complementary part. The division of the price is put into practice by the encapsulation of the capital.

Encapsulation of already available capital in a complementary monetary scheme to create a closed loop of money circulation.

- in order to delay the escape of money back into the big assets
- in order to increase the velocity of money circulation. An increase in transactions increases the circulation of money. No one owns more money, but a lot more people own money at any one time.
- in order to use money in a more sophisticated way
- in order to reflect local demand

We can assume:

Improving the local and the complementary economy requires an improvement in the way money is used, otherwise it will be difficult to make the scheme successful.

Target groups

for circular economy

- market potentials
 - economically suffering communities with lack of money
 - approx. 2/3 of world population
 - improvement of local business cycles
 - » supports fight against unemployment
 - » enhances public and social infrastructure
 - » leads to less environmental impact
- investor potentials
 - blockchain technology
 - mobile payment systems
 - ethical compliance investments

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Figure 6) target groups

Who might be interested in the scheme?

The Market

The scheme applies to all communities suffering economically due to lack of money which is usually visible in high rates of unemployment. The scheme is interesting to a minimum of 2/3 of the world population (OXFAM, 2018).

Investors

The scheme is at least a business idea for system providers in

- blockchain technology
- mobile payment systems
- ethical compliance investments
- or even central banks

but also for

- enabling cost savings in production purchasing cooperatives

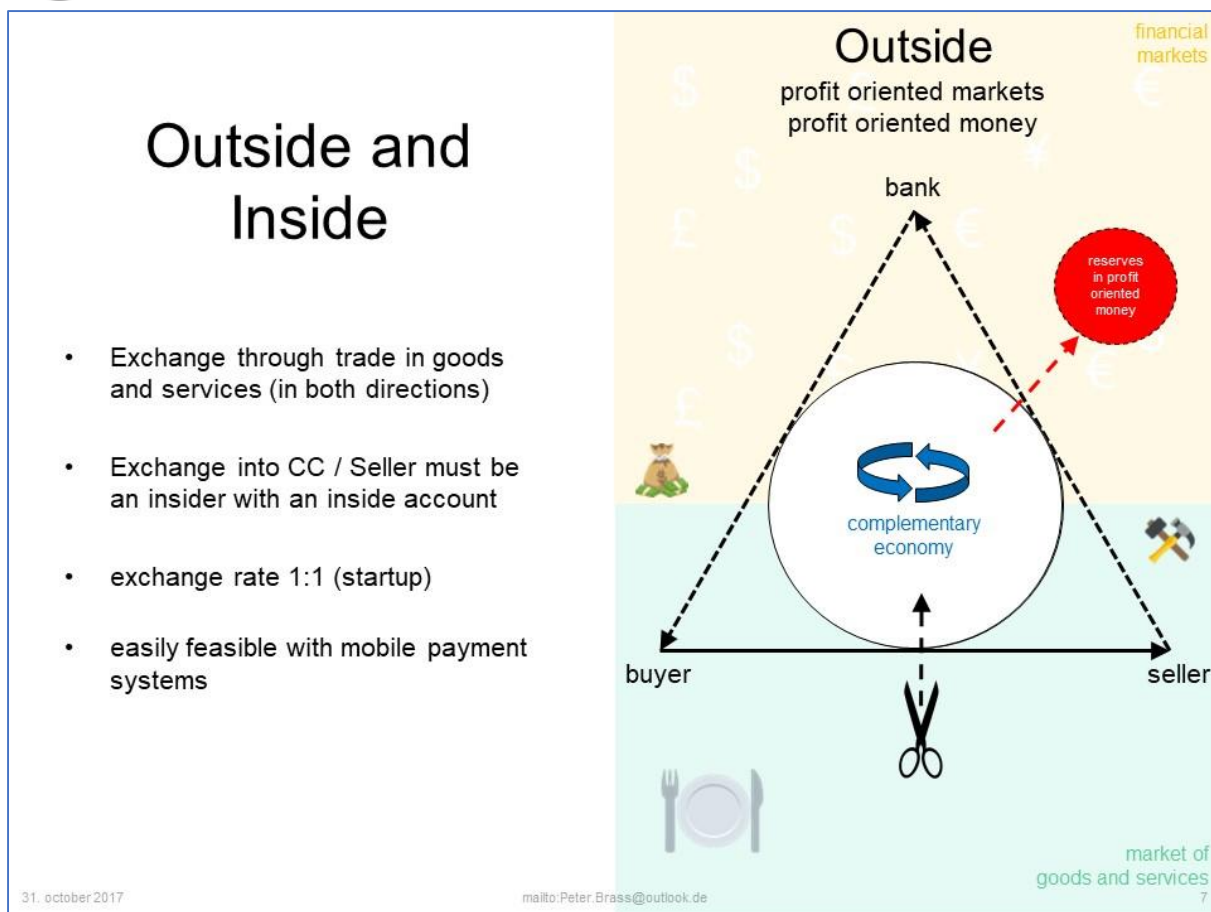


Figure 7) global markets and inside market

Outside is the global market. Payments must be done with the profit-oriented national currency.

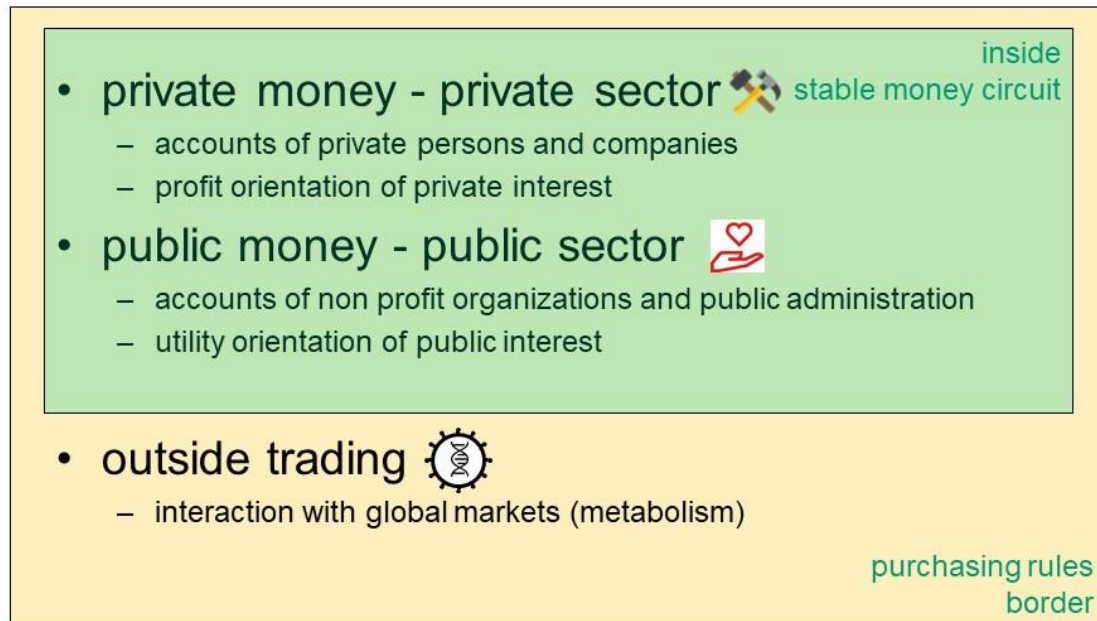
Inside is the complementary economy. Payments are done with a complementary currency and hedged by national currency.

Hedging and the Exchange between inside and outside happens simply through transactions of goods and services, feasible with mobile payment systems. The Exchange rate is always 1:1. It can be seen as a switch leading money into complementary economy, using the same principle that Libra and PayPal uses to mine money.

Transaction costs should be low in a way that money runs without friction and losses through the scheme, even if additional inside-transactions can not be generated if inside market can not offer competitive goods and services.

Nevertheless, if the local market can offer those goods and services this creates additional transactions in the local market. More people get involved, more people own and use this inside money. This causes a growing local business until all necessary demands are satisfied, providing a complementary economy in the best sense.

scheme based on 3 elements



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Figure 8) the elements of the scheme

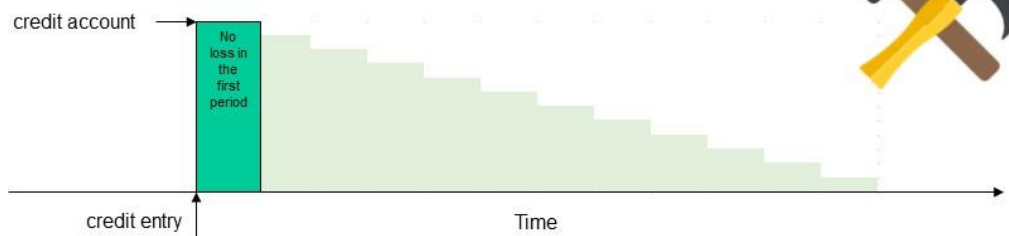
The scheme is based on 3 elements:

- private sector is the interest of individuals and companies. Profit orientation described as the invisible hand of the market in the work of (Smith, 1983) in the wealth of nations. The private sector uses private accounts which declares money as private.
- public sector means public interest, the interest of the community or public utility orientation. This orientation depends on the social intelligence and skills of the community. Non profit organisations, public administration or management uses public accounts which declares money as public and makes it public.
- Both together create the stable money circuit as the basis of complementary economy.
- the third element is outside trading, like the foreign trading of the national economy. It can be seen like a membrane and metabolism of a biological cell. Purchasing rules regulate permeation of global goods and services into complementary economy by promoting local alternatives. Complementary economy cannot grow to its optimum size without these rules.

private money for the private sector



- function
 - mean of payment
 - unit of account
- attribute:
 - provide circulation guarantee by demurrage



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Figure 9) private money for the private sector

Private money will be used as

- means of payment
- unit of account

Demurrage instead of interest is the important characteristic of private money. This guarantees money circulation. (Gesell, 1920).

Demurrage is the periodical loss of money after payment into the account. This forces everybody to use and to avoid the loss of money.

citation:

Free money may turn out to be the best regulator of the velocity of circulation of money, which is the most confusing element in the stabilization of the price level. Applied correctly it could in fact haul us out of the crisis in a few weeks ... I am a humble servant of the merchant Gesell (Fisher, 1933)

f.e. (Keynes, 1936)

public money for the public sector



- function
 - store of value
 - immediate reinvestment into complementary economy
 - as interest free credits
 - priority for the private sector
 - benefit
 - without interest or demurrage
 - provides utility guarantee
 - value in public services f. e.
 - » education, security, health, welfare, etc.



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Figure 10) public money for the public sector

One of the main functions of public money is the store of value and inside monetary balancing.

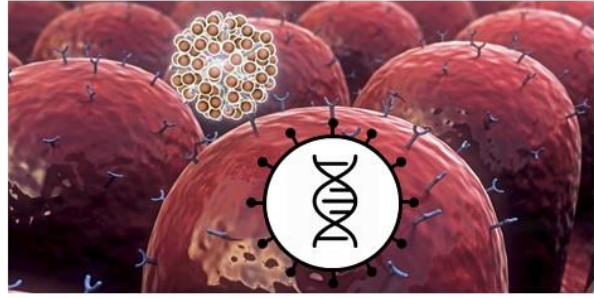
Public money is without interest or demurrage.

Savings will immediately be reinvested to keep money in circulation by providing

- interest free credits preferably to the private sector
- if private sector is saturated public sector will take lending for investments into public and social infrastructure

This is an advanced kind of saving to create utility in public and social infrastructure. Nevertheless, savers keep their savings as value and mean of payments.

outside trading (metabolism)



- **function**

- guarantee of purchasing power
- export of goods and services increases local scheme
- import of goods and services decreases local scheme

- **benefits**

- free access to outside goods and services
- except financial services
- competitive
- promotion of inside business
- controlled by establishing purchasing cooperatives or import traders

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Figure 11) outside trading

It is essential for the acceptance of the scheme to have equal purchasing power and access to all global goods and services like with national money.

Purchase of goods and services from the inside market are exports. This increases the volume of the complementary scheme and is wanted.

The other side

Purchase of goods and services from the global market are imports. This decreases the volume of the complementary scheme. If all transactions are imports, the additional transactions in the inside system reduce to zero.

Imports must fully available and be priced competitively to guarantee purchasing power of the inside money.

Purchasing rules promote exports and guarantee imports.

It is necessary to establish import traders or purchasing cooperatives. They get the rights to import global goods and services with the right to exchange inside money back to outside money for the purchasing.

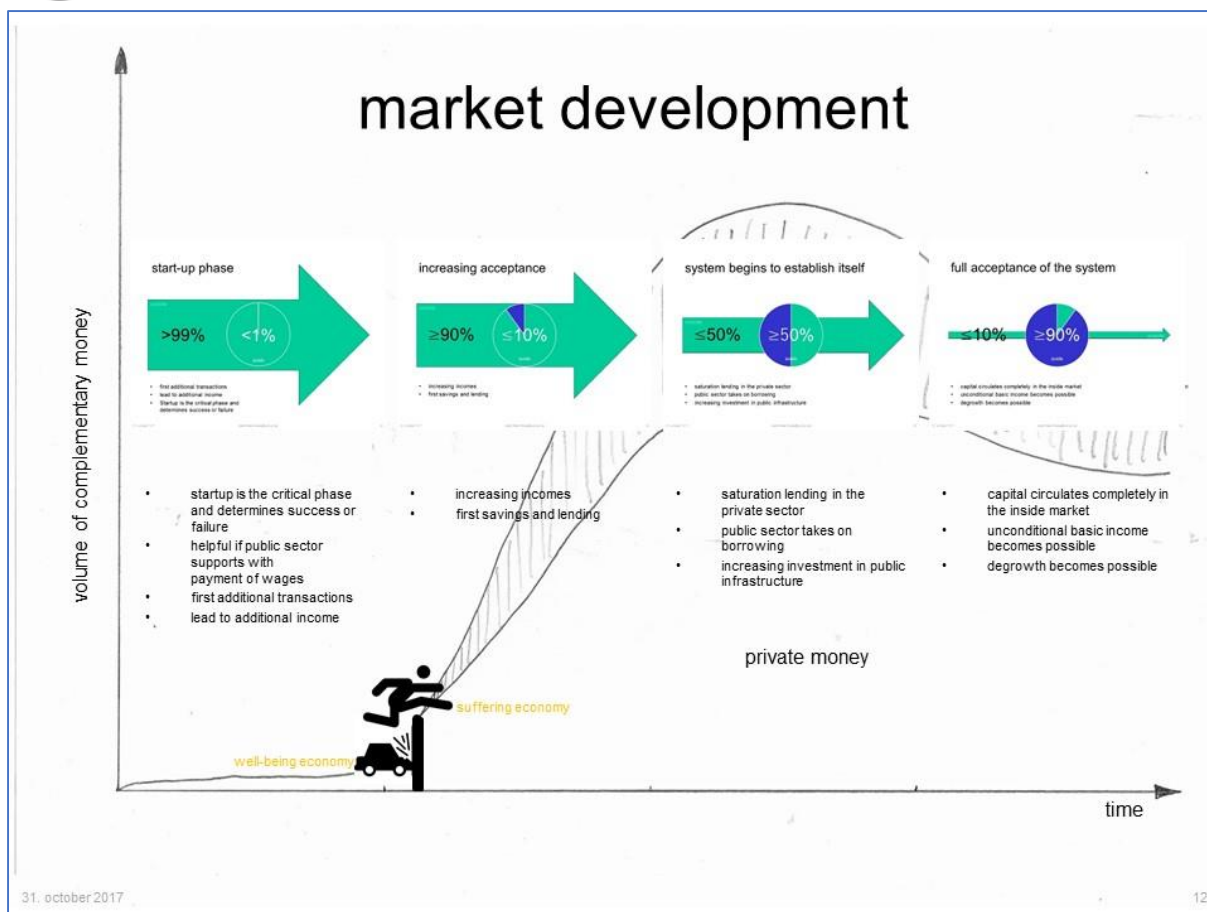


Figure 12) market development

Assumptions about the market development. Market development described as volume of complementary money.

Start-up phase is very critical and decides about success or failure. Support of public sector would be useful f. e. in paying wages. The first transactions will lead to first income.

People in suffering economies will need these incomes. This leads to increasing acceptance of the system. Transactions and income will increase first savings will be done. First savings lead to first credits.

Volume of complementary money and savings reaches the maximum peak if participants realize the benefit of the scheme. Private sector and the borrowing of savings in private sector will get saturated. Public sector overtakes the borrowing for investments in the public sector. The system starts to establish itself.

Full acceptance is reached if complementary money circulates more or less completely inside. If public sector push money into the system comes it immediately back. This leads to additional possibilities like an unconditional basic income.

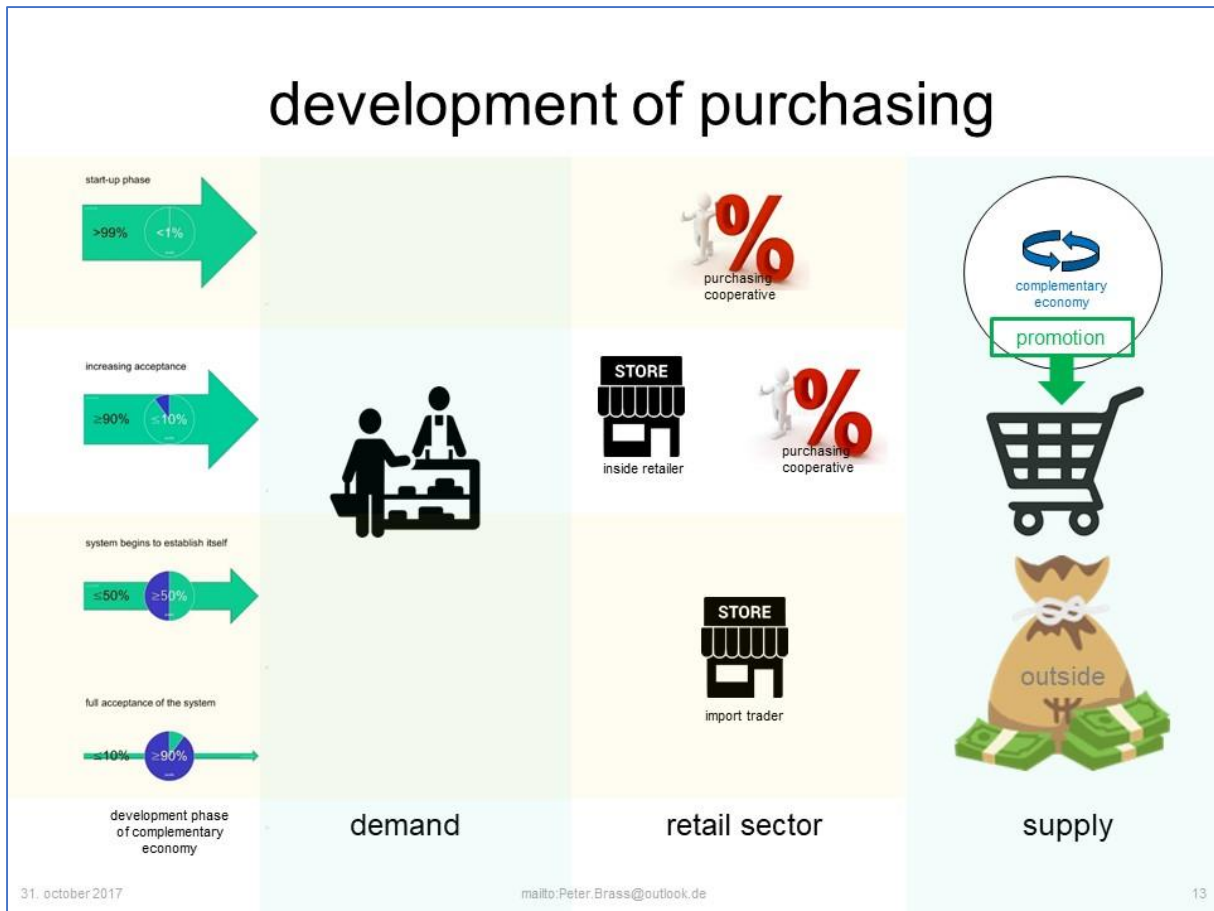


Figure 13) development of purchasing

In the start-up phase retailers will not accept inside money. A purchasing cooperative becomes necessary which accept inside money. This cooperative offers competitive prices, is able to satisfy all demands, promotes inside products and is doing all imports. Import trading is the right to exchange inside money back into outside money for the purchasing of outside goods and services.

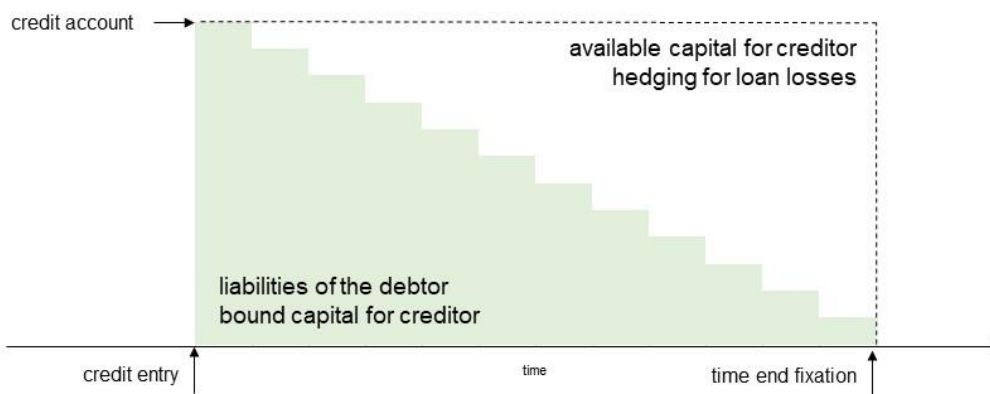
In the phase of increasing acceptance first small retailers will join the system. They will use their inside revenues to purchase at the cooperative. The cooperative supports the retailers and try to move the inside business to them.

The inside system establish itself if inside trading gets competitive and traders lose business if they don't accept inside money. Retailer start to do import trading by themselves.

lending



- immediate reinvestment of savings
- interest free
- without demurrage for saver until time end fixation
- fractional reserve banking is forbidden



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Figure 14) lending rules

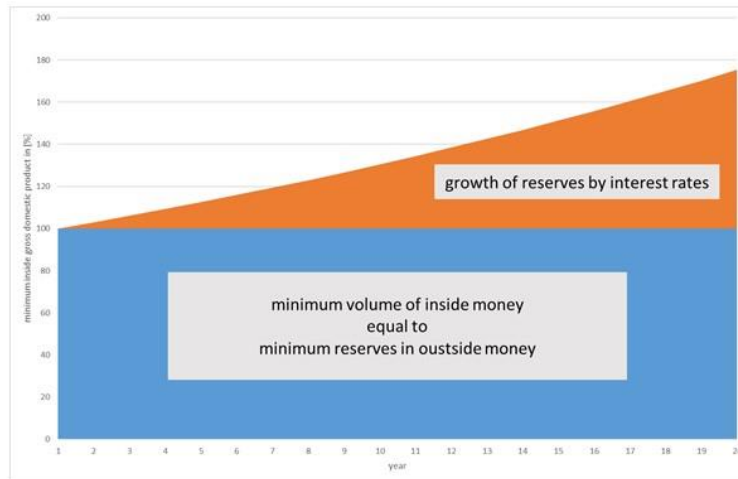
Savings must be reinvested immediately to ensure money circulation. Money creation through fractional reserve banking is prohibited in order to keep the hedging stable and to avoid trouble with the central bank.

The saver must accept a time end fixation of his capital, but don't pay demurrage in this time. With each repayment by the debtor the saver gets access to this part. Unused repayments are used to hedge credit losses.

The debtor gets the loan interest-free and has to repay it in instalments within the time end fixation.

benefits for system provider

- system provider collects and manages the reserves
- gains interest on global financial markets



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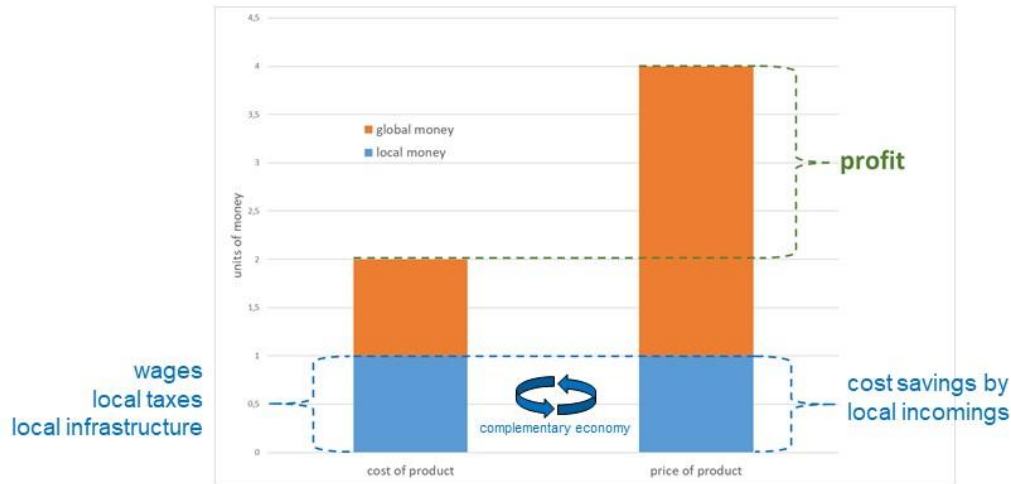
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Figure 15) benefits for the system provider

First of all, commercially interesting for system provider

- offering the service from consulting, over framing legislation drafts, negotiation with local administration, national authorities and the legislature, to running the system
- the exchange from official to local money creates reserves. Financial companies are keen to manage those reserves. Despite conservative investment, they generate interest. This will lead to the main profit for the system provider as a business model like Libra wants to do it.

benefits for general investments



- cost savings by local incomes

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Figure 16) benefits for general investments

Nevertheless, the scheme is also commercially interesting for other businesses.

Returns can be deducted from the costs in complementary economy. As the local budget is not relevant for global controlling, demand in official money is decreasing.

The State receives still the same taxes in official money, but could have the opportunity to move the local share into complementary economy.

Companies will save wages, local taxes and costs for local infrastructure if they offer goods and services in the complementary scheme.

Interesting for companies who care about the well-being of their local environment, especially in an environment of crime and corruption.

It is also an interesting business model for purchasing cooperatives.

At least beneficial for participants to save costs in official money.

implementation

- finding the perfect community
- creation of a second miracle
 - historical experience => the miracle of Woergl
 - successful only if money circulates, but
 - demurrage is unpopular
 - legal issues
- success leads to trust and confidence – idea will propagate among other communities



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Figure 17) implementation - finding the perfect community

There is one successful historical example of the improvement of money circulation by demurrage money, called the miracle of Woergl. (Uchatus, 2010).

If this idea needs a second miracle to succeed, it could be possible through good preparation and by finding the perfect community.

Success would lead to trust and imitators. Trust would be created once the success becomes visible. Trust is the basis for further success, even if the following communities are not perfect.

perfect community



- suffering economy
- social intelligence
- cooperative authorities
- sufficient size and local gross turnover (LGT)
 - $LGT \gg$ external debt and leases
- good understanding of language



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Figure 18) the perfect community

Demurrage money is unpopular and there are ideological reservations. This is the main challenge.

The characteristics of a perfect community are:

- The economic situation has to be bad, where people only have the choice of either having no money with interest, or income with demurrage money
- The community would be unattractive to big investors
- The community needs social intelligence
 - in order to understand the advantage of the scheme
 - in order to find cooperative local and national authorities
 - in order to be save
- The community should have a sufficient size. The local cross turnover should clearly exceed external debt and external leases.
- Communication is critical
 - Good understanding of language
 - Sufficient communication infrastructure



Appendix

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Keywords: local payment scheme; complementary currencies;
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