Sovereignty and the Money Problem

A New Beginning

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In the last several decades many independence movements around the world have been successful and the number of sovereign nations has vastly increased. Have these movements really achieved what they wanted? Or is the goal of political independence a kind of escape valve for aspirations that seek something deeper, something more substantial, than the symbols and trappings of the sovereign state? After all, many nations today find themselves to be sovereign in name only, their actions constrained by global politics and economics.

One of the most potent constraints on a nation's freedom to act is the global money system. In the Eurozone, for example, EMU rules dictate many economic and even social policies. Elsewhere, it is IMF conditions that do the dictating, or, in the case of large states with their own currencies, it is the bond markets. If a country implements policies that are perceived as unfriendly to investors, or as likely to reduce commodity exports, it is "punished" by capital flight, higher interest rates on its debt, runs on the currency, and so on. Like it or not, nations are forced to be more competitive: to cut wages and social spending, to orient toward commodity exports, to facilitate the exploitation of natural resources. No government, liberal or conservative, is immune to these pressures, which is one reason why liberal and conservative policies around the world have so converged as to become nearly indistinguishable. Even supposedly sovereign nations don't enjoy true self-determination.

Real political sovereignty requires economic sovereignty: local control over the exploitation and circulation of resources, along with a moderate degree of local self-sufficiency. Unfortunately, governments that defy international finance and seek to establish true economic sovereignty—for example, by protecting the domestic economy, limiting the exploitation of natural resources, and protecting workers and the environment—incur not only the above-mentioned economic punishments but are labeled "leftist" and subjected to political pressure, too. First their politicians are bribed, directly or indirectly, to adopt more "growth-friendly" or "free market" policies. Then, the government finds itself facing foreign-funded "democratic" opposition, hostility from the corporate media, or even a military coup, embargo, bombing, or invasion. Will a newly independent nation be exempt from the pressures that existing nations already face?

Whether it is a nation, a state, or a locality, political sovereignty is largely meaningless if its economy remains a helpless appendage of the global financial system. Today nearly every place is a colony, importing finished products that it is helpless to produce itself, and devoting its raw materials, skills, and/or labor power to the needs of distant markets. Fortunately, the financial and political system that enforces this status quo is in crisis. Its dissolution offers new possibilities for creating true local self-determination.

In theory at least, one of the most powerful ways to restore and protect local economy, and by extension some degree of political autonomy, is through local currency. Local currencies encourage businesses to source products locally and give them a competitive advantage against national companies that will not accept payments in local currency. Unlike dollars, which quickly get sucked away to corporate headquarters and Wall Street, local money stays local. The more businesses that accept it, the more useful it becomes, and the more businesses will want to accept it. In theory, once it reaches critical mass it should be self-reinforcing.

Yet local currencies still occupy a very marginal position in the economy. Most attempts at launching them founder within the first year or two. The reasons for their relative failure illuminate a future path toward authentic local self-determination. Anyone hoping to launch a local currency in a modern economy faces a Catch-22. Local businesses won't want to accept local currency unless they can use it to purchase labor, raw materials, or other inputs. For a local currency to thrive there must therefore be local producers who meet the needs of other local producers, who meet the needs of yet others . . . and eventually completing the circle. Otherwise, what often happens is that the currency accumulates in the hands of whatever idealistic enterprises choose to accept it.

In other words, to be successful, a local currency requires a functioning local economy, which is today a rarity because of the financial system that encompasses all. Without limits on capital flows, local producers are at the whim of global commodity prices. A restaurant might want to source food locally, but often the local farmer cannot compete with distant, subsidized megafarms enjoying high efficiencies of scale and market leverage. In short, local economies can only develop if they are financially protected from global commodity markets—for example, through a local currency with limited convertibility. But a local currency cannot be successful in the absence of a local economy. Catch-22.

To exit this dilemma requires a purposive political decision to nurture local economy. Local currency is a key part of this effort, which must also include local credit mechanisms, economic infrastructure, fiscal and tax policy, and so forth. It is particularly helpful if local currency is acceptable as legal tender for payment of taxes. (That is unheard of today; on the contrary, complementary currency transactions are subject to sales and income taxes payable only in dollars, forcing people to operate in the national currency whether they want to or not.) The successful local currencies that proliferated in the 1930s were issued mostly by local governments themselves. The reaction of central governments was uniformly hostile—understandably, since currency issue has become a key prerogative, perhaps a defining prerogative, of a sovereign state. Most local currencies were banned in short order.

The other circumstance under which local currency use becomes widespread is during times of social turmoil, war, or the collapse of the national currency. Then all kinds of informal currencies spring up: cigarettes, vodka, gasoline, gold, and so forth. In normal times, however, only the national currency is widely used.

Today it is becoming increasingly apparent that normal times are ending. We are witnessing the slow-motion disintegration of the financial system that has dominated our world for the past seventy years. In the wake of its collapse and the accompanying social turmoil, opportunities will arise to implement new kinds of money systems, rebuild local economies, and reestablish local sovereignty.

For a preview of how it might unfold, we can look to the Argentinian economic crisis of 2001–2002. Provincial governments ran out of pesos to pay employees and contractors, so they paid them in low-denomination bearer bonds instead (one-peso bonds, five-peso bonds, etc.). Businesses and their employees accepted them readily, even though nobody really expected the bonds would ever be redeemable for hard currency, because they could be used to pay provincial taxes and fees. Acceptability for payment of taxes enhanced the social perception of its value, and, as with all money, value and the perception of value are identical. The currencies circulated far beyond their region of issue. They revived economic activity, which had ground to a halt because, after all, people still had the capacity to produce goods and services that other people needed, lacking only the means to make exchanges. At the same time, Argentina's government repudiated its foreign debt, temporarily cutting it off from imports and increasing the need for local self-reliance. At that point the IMF stepped in with emergency loans to induce the country to keep its debts on the books.

In 2009, the state of California came within a hair's breadth of doing nearly the same thing. Faced with a budget crisis that rendered it unable to pay tax refunds and money owed to contractors, the state began issuing IOUs instead. Similar to bonds, these were to be redeemable for their face value plus interest at a later date, or they could be used to pay state taxes. The program was terminated after a month or so, as the state obtained short-term loans from banks. Although the IOUs were denominated in U.S. dollars, banks threatened not to redeem them, which would have made them into a separate currency. The episode shows that there are forces just below the surface pushing toward a different money system. It can happen nearly overnight. Unthinkable in normal times (i.e., the normality of endless growth, which will never come again), local, government-issued currency could soon become common sense.

At present we are living, if no longer in normal times, at least in the inertia of the habits of those times. Accordingly, local currencies still face an uphill battle, languishing without government support. Nonetheless, the efforts of local-currency activists over the past twenty years have not been in vain. They have created a model—many models in fact—to be applied when the next crisis erupts and the unthinkable becomes common sense. Already, cities and states are on the verge of bankruptcy. When, as in some cities already, there is not even the money to pay the firefighters, it may not be long before we adopt Argentinian and 1930s-style experiments on a wide scale.

But this is only a beginning. We face today a multiplicity of converging crises, not just economic. Of particular relevance to local sovereignty are the energy crisis and the ecological crisis, which call us to reduce our dependence on long-distance transport, and to produce and consume in a way that respects local ecosystems. In today’s money system, producers profit by exporting their costs onto the social and natural commons, using up the wealth that properly belongs to all. This includes the soil, the aquifers, the land, mineral resources, biological diversity, and the capacity of air and water to absorb waste. While some of these forms of commonwealth, such as the CO_2 commons, are global in nature, most are local or regional and should therefore be held under local or regional stewardship. In the current money system, that is nearly impossible, even for sovereign nations. The pressure exerted by global finance and the commodity economy to convert every possible bit of social and natural capital into money is too great to resist.

That is likely to soon change. Our money system cannot exist without economic growth; without growth, wealth quickly concentrates in the hands of the few, and social tumult soon follows. Today, growth is reaching its limits as the commons is exhausted and as human consciousness shifts toward a desire to protect and heal the earth. Local and bioregional governments will have a dual opportunity: to reclaim sovereignty over their economies and stewardship over the natural commons under their jurisdiction.

Ultimately, political sovereignty means very little if outside corporations can strip-mine a society’s natural and social capital—its resources, skills, and labor—and export them to global markets. Meaningful sovereignty is economic sovereignty. As the tide of economic globalization peaks and reverses, we have the chance to regrow our social structures so that we become no longer mere inhabitants and exploiters of the cultural-biological regions in which we live, but their organic extensions, their lovers, protectors, and stewards. Isn’t that what we are really seeking, when we speak of sovereignty?