Currency duality as a way to financial freedom

"We Are the Change" Foundation. Poland

1) The global financial system

In 1974, the heads of the five largest central banks met in Basel. At the meeting, a decision was made on how the global financial system would operate after the abolition of the gold parity. Subsequent changes in the composition of the privileged central banks have led to the current situation, which in popular terms is the following:

Five central banks gained access to printers, that is to the ability issue of paper and electronic money. These are the central banks of countries with the following currencies: US dollar, euro, Chinese yuan, British pound and Japanese yen. These currencies form the so- called currency basket. In addition, the Swiss Central Bank (Swiss franc) was also authorized to print money.

Other countries that want to enjoy the benefits of currency exchange, i.e. participate in the global market, have to agree on the so-called convertibility. This means the obligation to have foreign exchange reserves (currencies only from the currency basket) by the central banks of these countries.

Countries with a monopoly on money emission were in a privileged position already at the start. As a result, they can achieve faster economic growth and more favourable trading conditions of trade exchange at the expense of other participants of the world economy.

Convertibility implies that the emission (printing) of national currencies can only take place under the control of the printer owners and in the quantity provided only by special self- elected bodies.

Therefore, any currency outside the currency basket is a kind of a "token" (i.e., non- sovereign money) issued against foreign currency reserves accumulated by these countries. What is a token? A token is like a chip used to play in casinos. The casinos are required to exchange those chips for money whenever the chip owner requests it. The same applies to countries with non-sovereign currencies ("tokens"). At any request, they have the obligation to exchange these currencies into those from the basket.

A casino must have enough money to buy chips. Similarly, countries that have currencies outside the currency basket must have corresponding currency reserves.

Convertibility of national currencies is based on the unilateral commitment of their issuers that any national currency (token) can be exchanged at any time into the currency from the basket.

In this situation, financial markets can effectively shape not only the exchange rates of national currencies, but also affect the size of currency reserves. All the other convertible national currencies are not and cannot be sovereign currencies in this financial system.

It is worth noting that the current currency exchange rate system based primarily on the forecasts of rating agencies and the stock market speculative game strengthens the developed economies while destroying the weak ones.

2) Place of the NBP in the global financial system

The NBP is the central bank of Poland, whose tasks are defined on the one hand by the Constitution and, on the other hand, by the Act on the National Bank of Poland. The NBP is an institution independent of the government and the Parliament. Its main task is to ensure that nobody undermines the Polish currency. The NBP is responsible for the implementation of the so-called inflation target by influencing the slowdown or increase in lending. This task is regulated by the NBP interest rates.

However, the NBP's policy is not infallible, especially in periods of any turbulence in the global economy. Actions of the investors on world markets may disrupt the zloty's exchange rate. This raises the costs of import, which increases the expenses for households and thus causing inflation.

3) The existence of parallel markets: real economy and financial markets

In the present world there are two mutually influencing markets: financial markets and real economy markets. The sum of money circulating in the financial and economic turnover is not known, because there is a continuous, uncontrolled creation of new debenture (debt- money) for the purposes of interest coverage. Only the quantity of money in the banking sector is known – money that constitutes assets of all commercial banks in the global system. However, the amount of money circulating on the financial markets (funds, stock exchanges and grey zones) is unknown.

In the literature, two concepts related to the emergence of new money are distinguished: emission and creation. Emission concerns the creation of new money by the central banks (US dollar, euro, British pound, yuan, yen) and the central bank of Switzerland (Swiss franc).

The term "creation" refers to the production of money by commercial banks. Based on the financial leverage of the world system, these banks create money.

The parallel existence of the real economy market and the financial market causes a constant outflow of money from the real economy to financial markets. As a result, human work, instead of improving lives of every human being, is transformed into exorbitant wealth of a few "financial sharks".

4) The structure of money circulating in the economy

It is estimated that in the real economy over 85% of the circulating money is debenture.

Thus, money that is a medium of commodity trading, investing and speculation on financial markets is created mainly by the global system of commercial banks.

Currently, the world is starting to become mature enough to deprive commercial banks of the possibility of creating debenture. In the language of economists, this means moving from a fractional-reserve system to a 100% reserve banking.

5) Interests as the monetary multiplication mechanism

There is a doctrine in the source literature which says that "money should keep working". The implementation of this principle means that money generates money. This uncontrolled multiplication of money can be compared to cancer – a cancer eating away at the global economy.

Interest repayment always draws from debenture. In this way, debt is multiplied exponentially and its amount is beyond any control.

Money is treated like a commodity, but a commodity with specific characteristics. This commodity is indestructible, does not become obsolete and does not lose its nominal value.

Recognition of money as a symbol (or a tool) and not, thus far, as a commodity, allows to create a concept of money as a medium, devoid of the internal contradictions mentioned below.

6) The contradictory functions of money

The source literature distinguishes four basic functions of money:

- medium of exchange
- measurement of value
- thesaurization (saving)
- social division of labour

The third function stands in contradiction to the others. This contradiction is particularly visible between the medium function and the saving function. The same medium cannot properly perform contradictory functions. If, as a result of saving, we withdraw a certain amount of the medium from circulation, it must lead to a slowdown in economic turnover, and therefore it does not contribute to economic development (intensification of the exchange of goods).

In conclusion, the shortage of money in the circulation or its slowdown is the basic cause of cyclical economic crises and deficiency of money in the system.

7) Gap between expenses and income

Household purchases are covered only in half from their annual income. Thus, there is a disproportion between household income and the value of consumption. The population fills this gap by loans. The existence of such a gap, resulting in the need to apply for loans, has contributed to the idea of the so-called Guaranteed minimum income (GMI). Money received from GMI can effectively eliminate the need for loans.

8) Business cycles and the inevitability of crises in capitalism

There is widespread opinion, supported by scientific research, that in capitalism, business cycles are inevitable; that the bull market has to be intertwined with the bear market. These cycles, according to scientists, are human-independent – they are the realization of a specific economic law. This view is fundamentally wrong, because the cycle is always the result of human activity. Its main causes are central bank decisions regarding basic interest rates.

Recent decision by the FED to raise the interest rates to 3% results in the outflow of the so- called portfolio capital (stock market; speculative) from markets considered to be risky (emerging markets) to the US market, with the intention being the purchase of the US government bonds. The outflow of capital weakens national currencies and starts to create a spiral of ever stronger shifting of capital from markets considered uncertain to markets deemed risk-free.

As a result, central banks of emerging markets are forced to raise their own interest rates in order to retain their capital reserves.

An investor-speculator in an emerging market will be able to earn more, but will feel that s/he bears a higher risk. The effect of these activities is the decrease of lending by commercial banks, reduction of the amount of the medium (money) in the circulation, stagnation or economic recession, rising unemployment and declining consumption, which further deepens the recession. This is the bottom of the business cycle, or the bottom of the bear market.

Sometimes a long-lasting bear market and a lack of counteracting measures lead to a crisis. It is worth emphasizing, however, that this is not an economic crisis. It is always a financial crisis, caused consciously and intentionally.

In summary, we live in a world of a deep stratification of societies and nations. 99% of the population is in a state of economic enslavement. We also live in the era of neo-colonialism, in which weak economies are getting weaker and developed economies grow stronger.

9) Academic knowledge and observation

A keen observer of economic life in Poland and in the world, if he manages to free himself from stereotypes such as: “money printing causes inflation”, “debts have to be paid back”, “you cannot spend more than you earn”, “the state budget is like a household budget”, “money has to keep working”, “interest is a reward for abandoning consumption” could determine that the economic rules functioning in academic sciences have become anachronistic. This situation requires a change in the paradigms in the social sciences and economics.

While in the present times there is an abundance of goods, the science and law still use the principles and theories from a bygone era – the era of scarcity.

Indicators and rankings that present the actual state of satisfaction of societies in a false light have become the aim of economic sciences. Mythical GDP replaced the real goal of social sciences, which is to improve the standard of living of every human being. Researchers and experts should be reminded of what the real goal of economic sciences should be.

10) Poland as a pioneer of currency duality

The degree of complexity of the current global financial system indicates that we are probably on the verge of catastrophe. Introduction of the parallel currency into the circulation can provide financial security and guarantee the continuity of economic processes in Poland. Parallel currency will be interest-free and non-exchangeable. As an interest-free money, it will not encourage you to save and will therefore be more willingly spent. Supplying the economy even with a small amount of this currency will effectively stimulate the economy due to the speed of its circulation.

The economic effects resulting from the introduction of parallel currency arise from its features:

• Sovereignty – the amount and value of a currency depends on the issuer, which is the National Bank of Poland or the institution designated by it. Parallel currency is not subject to any emission limits like PLN, i.e. it does not need to be secured by foreign currency reserves. This currency functions independently of the global financial system, including the banking system.

• Interest-free – money ceases to be a commodity, as interests is the price of money. Money is not multiplied, which reduces the propensity to save, thanks to which the speed of money circulation in the economy increases. As a result, consumption increases, especially in the area of services, and thus the quality of life of every person is improved.

• Non-convertible – it means that the parallel currency cannot be exchanged either for PLN or for currencies of other countries. On the other hand, it would be possible to acquire a parallel currency for PLN 1 in a 1:1 ratio. This feature of parallel currency favours the creation of the national self-sufficient economy. It stimulates export and counteracts import.

• Domestic currency – the parallel currency is used as a means of payment throughout the entire country and only within the country. It is, however, permissible to conclude bilateral agreements in which the parallel currency can be a medium for mutual trade.

The attractiveness of a parallel currency can be increased by introducing the principle of paying taxes also in this currency.

The specificity of a parallel currency creates special conditions for economic development. It stimulates the local economy and reduces the production costs of goods and services in the areas that concern interests and transport. These cost savings allow for the increase in wages.

The introduction of a parallel currency does not destroy the existing state of affairs. In the economic and banking sector, the PLN will continue to function on the current principles.

If, following the example of Poland, other nations introduce a dual-currency system, the global economy will be resistant to any collapse of financial markets, including stock exchanges. When a parallel currency becomes the primary currency in the countries that introduce it, the present unjust and destructive financial system will be gradually superseded. Thus, its worst features will disappear: the interest rates and the method of arbitrarily determining foreign currency exchange rate.

On a global scale, parallel currencies will lead to the abolition of excessive income differences, introduce a sense of material security, reduce greed and the desire to collect goods “for a rainy day”. The world will depart from the pursuit of profitable planned obsolescence of products and robbery of natural resources, thanks to which our planet will breathe a sigh of relief. People will be freed from slave labour, which will henceforth become for them a way to pursue their own talents, passions and interests.

In the new reality, basic human needs will be fully satisfied.

Nobody will be hungry or homeless. Creating external conditions for human development will let us stop living in fear – fear of exclusion, of “the dark hour”, of hunger. Competition will be replaced by cooperation, egoism by empathy, and pursuit of money by striving for self-fulfilment.

11) Currency duality and science

The idea of currency duality is not a new one. It was developed theoretically and tested practically. Silvio Gesella is considered to be the creator of this concept. His theory was practically implemented in 1932 in the town of Wörgl. Gesell's scientific achievements have been spotted by John Maynard Keynes, who in the 23rd chapter of his seminal work entitled “The General Theory of Employment, Interest and Money” expressed approval for these achievements. The dual-currency system proposed by the Navigators tales into consideration two of Keynes' reservations included in his assessment of Gesell's works. Keynes's objections referred to the negative interest rate on savings proposed by Gesell and changes in the liquidity of means of payment.

12) Dual-currency according to the Navigators

The introduction of a parallel currency does not disturb the current financial system, since accepting payment in the parallel currency is voluntary. No obligation to accept the parallel currency by the seller means that its introduction in terms of this concept does not violate either EU law or national law.

The Navigators’ approach takes Keynes' reservations into account because it does not include negative interest rates on deposits, and secondly, it retains the current liquidity of money due to the introduction of a new financial system next to the existing one.