

Fundamentals of Alternative Currencies and Value Measurement

Because of legal tender laws, the “dollar” has come to have two meanings — (1) as a medium of exchange or payment (a currency), and (2) as the standard of value measurement or pricing unit.

An alternative currency must eventually decouple from both “dollars” but the more urgent need by far is decoupling from the dollar as a means of payment.

As I’ve pointed out in my books, an alternative currency that is issued on the basis of a national currency paid in (*e.g.*, sold for dollars), amounts to a “gift certificate” or localized “traveler’s check.” (See *Money Understanding and Creating Alternatives to Legal Tender*, Chapter 14, pp 145-163). It essentially amounts to prepayment for the goods or services offered by the accepting merchants. As such, it substitutes a local, limited use currency for a national, universal currency.

That approach provides some limited utility in encouraging the holder of the currency to buy locally, but the option of redeeming the currency back into dollars without penalty raises the question of how many times it will mediate local trades before being redeemed and leaking back to the outside world.

To truly empower a local community, a currency should be issued on the basis of goods and services changing hands, *i.e.*, it should be “spent into circulation” by local business entities and/or individuals who are able to redeem it by providing goods or services that are in everyday demand by local consumers. Such a currency amounts to an i.o.u. of the issuer, an i.o.u. that is voluntarily accepted by some other provider of goods and services (like an employee or supplier), then circulated, then eventually redeemed, not in cash, but “in kind.” In this way, community members “monetize” the value of their own production, just as banks monetize the value of collateral assets when they make a loan, except in this case, it is done by the community members themselves based on their own values and criteria, without the “help” or involvement of any government, bank, or ordinary financial institution, and without the need to have any official money to begin with.

This is what I mean when I talk about liberating the exchange process and restoring (some part of) the “credit commons” and bringing it under local control. In this way, the community gains a measure of independence from the supply of official money (dollars) and the policies and decisions of the central bank (which in the US is the Federal Reserve) and the banking cartel. That is the primary mission that needs to be accomplished if we are to transcend the destructive effects of the global monetary and banking regime, devolve power to the local level, and build sustainable, economic democracy.

With regard to the second meaning — the “dollar” as a measure of value, we need to understand that a standard becomes established by common usage. We in the United States are accustomed to valuing things in dollar units. We know from our everyday shopping experiences what the value of the dollar unit is in terms of the things we buy and in terms of our own earning power. Any new “language of value” will have to be translated into the dollar “language” that we already understand. How we measure value is a separate question from that of how we create our own payment media. In the process of monetizing local production as described above, we can choose to give our credit unit any name we wish, but it makes sense initially to define the value of that unit as being equivalent to that of the national currency unit. In the exchange process, large balances will not be held for long so the debasement of the dollar unit through monetization of government debt will result in only slight losses for users of the community currency.

It is when we begin to hold **long-term** claims denominated in our own new value unit that we will need to define it in concrete, objective terms to avoid following the dollar into the abyss of worthlessness.

The US dollar was originally defined as a specified weight of fine silver, then later on, gold, but those objective definitions were obliterated by laws that made paper currency “legal tender” that must be accepted in payment of “all debts public and private.” So now the value of the *dollar unit of measure of value* depends entirely upon the value of the *dollar currency*, but the value of the dollar currency is continually declining as more of it is issued on an improper basis, particularly on the basis of government debts that will never be repaid and that bring no concomitant value into the market.

A stable value unit will then need to be defined in terms of some commodity or group of commodities that are commonly traded. Such definition will then provide the “Rosetta stone” that enables us to relate, from day to day and minute to minute, our value unit to the old dollar language. That process is explained in my first book, [Money and Debt: A Solution to the Global Crisis, Part III and Appendices](#).

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9 Responses to “Fundamentals of Alternative Currencies and Value Measurement”

1.  [Tucson Rental Homes](#) Says:
[January 27, 2011 at 10:40 am](#) | [Reply](#)

Very interesting article post. Your article is really interesting. I enjoyed this article. This article is great! I have to say that after continually reading terrible as in, same old material, little quality content, etc. article posts on other sites, it's enjoyable to actually read something that has some thought put into it. It's a pleasure to read well written article posts, especially after continually seeing reshaped %\$!# that writers and bloggers are throwing out nowadays. It's always nice when I come across content that actually has value, I've been seeing a ton of subpar writing attempts lately. Anyhow, thanks again and I'll check back often to see what else you have to offer. I'll check back in the future to see what else you have up your sleeve. Keep up the high-quality work! BTW, I like your site design, but your header image was only loading half way for me. P.S. Your header is messed up a bit in IE. The problem could be on my end but I thought you might want to look into that.

2.  [TOMS](#) Says:
[January 17, 2011 at 1:21 pm](#) | [Reply](#)


I don't normally comment but I gotta tell appreciate it for the post on this one : D.

3.  [Cleo Foust](#) Says:
[March 10, 2010 at 3:51 am](#) | [Reply](#)

By far the most concise and up to date information I found on this topic. Sure glad that I navigated to your page by accident. I'll be subscribing to your feed so that I can get the latest updates. Appreciate all the information here

4. [Alternative Currencies « Ukiah Blog Live](#) Says:
[May 12, 2009 at 7:12 pm](#) | [Reply](#)

[...] Keep reading Fundamentals of Alternative Currency at Tom Greco's website→ [...]

5.  [david wallach](#) Says:
[February 19, 2008 at 6:49 pm](#) | [Reply](#)

this is a response to]A Comment and Critique of Congressman Ron Paul's Statement on Competing Currencies

Thomas,

It appears that the Commercial Barter Industry has created and is in the process of managing the very Democratic Monetary System you describe.


Moreover by monetizing Excess Business Capacities, economic efficiencies will be attained in the system that will measurably increase consumption and employment and therefore the overall standard of living. This will provide for improved nutrition, education and healthcare Worldwide.

6. [A Comment and Critique of Congressman Ron Paul's Statement on Competing Currencies « Beyond Money](#) Says:
[February 18, 2008 at 8:58 pm](#) | [Reply](#)

[...] The traditional functions which money is supposed to serve must be segregated. For my brief recent statement on this see, <http://beyondmoney.wordpress.com/new-chapters/fundamentals-of-alternative-currencies-and-value-measu...> [...]

7. [Fundamentals of Alternative Currencies and Value Measurement « Beyond Money](#) Says:
[February 18, 2008 at 7:15 pm](#) | [Reply](#)

[...] of Alternative Currencies and Value Measurement See this new post under Pages, New Chapters in the column to the [...]

8.  *Mark Herpel* Says:
[February 3, 2008 at 9:34 pm](#) | [Reply](#)

I would like permission to reprint this post in a special complementary currency issue we are having in March. Is it possible Tom you can reach me? I can't locate any contact information. Mark editor@dgc magazine.com

9.  *T. Megalli* Says:
[February 1, 2008 at 11:09 pm](#) | [Reply](#)

Thanks for this. My congratulations for this very compact and precise description of what a real alternative currency is all about. I couldn't have expressed it better.

Reading about stuff like the Chiemgauer and similar things sometimes makes me feel that all our educational work seems awfully desperate and I really must admire your patience in telling people for decades the same over and over and over again: Probably 99% of what I hear and read about issuing money these days misses the point. Even most of those who engage in monetary reform didn't get it. 100 years of having to live and survive in this ocean of legal tender, the monopolizing takeover of monetary theory by Keynesians in our universities encouraged by the governments and an almost systematic non-education of most pupils in our schools in at least some basics of economy have left their mark and made people blind and ignorant so that they don't see the wood for the trees.