

Statement of Credit of the International Independence Institute

by Robert Swann, 1972

Ashby, Massachusetts

The Creation of Money and Credit

Credit, or money creation primarily should be the function of relatively local or regional bodies of men, not central banks. In the future, we may call them commodity banks, credit unions, or by some other name.

This function of money or credit creation is a crucially vital function for the economic health of a community or region. It cannot be delegated to a central banking facility such as the Federal Reserve System without losing the vital element of local control and power over the lives of the people in each region. All over the world today, men and women are struggling to regain power over their own lives, and independence cannot be achieved without control over the institutions of credit creation as well as land and natural resources. Yet few, if any, of the newly independent nations have control these institutions. Such control remains in the hands of the "big ten key currency" countries. Meanwhile, the distribution of wealth becomes increasingly concentrated in the hands of fewer and fewer people in the wealthy nations, and the poorer countries grow poorer.

Establishing Local Credit Institutions

Although some link the creation of new credit (SDRs) in the international monetary system with underdevelopment, according to the March, 1972 *Christian Science Monitor*, "The industrial nations now receive 73% of newly created SDRs and the poor nations only 27%." It is unlikely this will change. In short, the rich get richer and the poor get poorer.

Not only are poor nations left out of the money creation process, but within the larger countries, poorer regions, which are primarily rural, are also left out of this process. Wealth tends to centralize in the urban aggregations where the commercial and central banks are located. Moreover, the commercial banks tend to bestow their privilege of money creation (a public trust) upon industries, particularly the larger ones in position to guarantee or underwrite large money issues (money is issued as loans by the commercial banks). As a result, the centralizing forces are intensified, and money concentrates more and more in fewer and fewer hands. Finally, when commercial banks act as the issuing source, they make no distinctions between short-term loans for productive purposes, which are constructive and noninflationary, and long-term loans for capital investment, which are socially destructive, such as industries that create pollution as a byproduct.

One of the purposes of the International Independence Institute is to assist in establishing models of local credit institutions. To accomplish this task, one of the important elements is to create credit infrastructures that help to build confidence and competence among ordinary people in the handling of money, making loans, and allocating resources.

Limitations of Credit Unions

It might appear that credit unions are an ideal way to promote such public credit institutions, and in some ways this is true. Unfortunately, however, there are also at least two major problems with credit unions that limit their usefulness as training institutions for the creation of community-based banking facilities. One is they are entirely dependent upon the existing banking facilities for money creation, and have been restricted by law from entering into commercial banking functions. Two, members tend to request loans for consumer purposes only. Therefore, experience with decision-making with regard to production loans is very limited.

These limitations do not imply that credit unions are not important and useful tools in helping to develop community and self-help oriented credit systems. They certainly are and should be encouraged in every way possible. But at the same time, credit union allocation committees should be encouraged to emphasize and promote production loans rather than consumer loans, *as only short-term production loans should be the basis for direct money or credit creation.* Moreover, countries whose laws do not prevent credit unions from doing so should begin experimenting with direct credit creation. This may be done simply by offering notes they received for production loans for discounting at central banking facilities. Credit union ideology, however, which has been “tamed” by banking laws in most countries, is not likely to approve or promote this kind of development.

The International Independent Institute has helped to establish a separate banking facility called Arbtrage International, which is designed to operate on an international level, whose purpose is the establishment of community-based credit facilities that promote local production of agricultural goods and intermediate technology. While initially operating similar to how a local credit union would operate, there are differences. One is that the primary credit source (provided by private investment on a rediscount basis) is mostly from outside the community. Another is that it is only for production purposes. These community credit units begin to form the infrastructure from which to launch genuine community-based banking practices.

For more

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