Glossary of Economic Terms Useful for Local Currencies as Well as Other Forms of Alternative barter and Exchange

I have put together this informal glossary in the hope that it may be of help to those who who want to work on local or alternative currencies as part of a solution to the social ills of our societies, but who don't have a background in economics. It has been the work of only a few days and I recognize that some of the definitions may need some reworking.

I gratefully acknowledge input from the on-line glossary of terms related to alternative currencies provided by Transaction Net. at http://www.transaction.net/money/glossary.html. Where I have not been sure of definitions, I have relied on *The Oxford Dictionary of Economics* by John Black and *The MIT Dictionary of Modern Economics*, edited by David W. Pearce. It is hard to put together a work like this without letting one's own politics creep in, but I have tried to keep that to a minimum. I have also included a non-comprehensive scattering of information about various authors whom I think have made important contributions to the ongoing dialog on small scale economics.

I hope that this glossary—in a more finished form—will find a place as an aid at the E.F. Schumacher library and perhaps on their website. If you would like to contribute suggestions or corrections to this list, you can give them to me at the Local Currencies Conference, or send them to me at the address below. You can download a copy of this glossary as a Microsoft Word or PDF document from my website, www.khasidi.net.

Sincerely,

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Alternative Currency

Generally speaking, an alternative currency is on that is instituted by a private group because they have decided that the national currency of their country is not fulfufilling their needs or the needs of their communities. The term is usually used in relation to those efforts that are aimed at a social benefit rather than commercial types of currency that exist in such forms as "frequent flyer credits" or "cash cards." But there is no strict definition as what is or is not considered an alternative currency.

See also:

- Complementary Currency System
- LETSystem

Arbitrage

To purchase securities, currency, commodities, etc. in one market for immediate resale in another in order to profit from a price discrepancy. This differs from speculation in that the arbitrageur buys and sells simultaneously, while the speculator buys at one time in order to take advantage of a higher price later in time. (This is an important concept in Ralph Borsodi's Inflation and the coming Keynesian Catastrophe: The Story of the Exeter Experiment with Constants.)

See also:

- Borsodi, Ralph

Backed Currency

A currency whose value is guaranteed by reserves of a commodity, such as gold, which are kept by the bank that issues the currency. Some currency can be backed by a guarantee to supply some service rather than a physical commodity. this is the logic behind such local currencies as Ithaca Hours.

Resources:

http://www.transaction.net/money/glossary.html

See also:

- Borsodi, Ralph
- Ithaca Hours

Bank For International Settlements (BIS)

A private organization located in Basle, Switzerland, owned by the eleven key central banks in the world. Initially designed as a clearing house for transactions among central banks, BIS evolved into a "neutral" meeting ground for the Central Bankers and a repository for research about issues concerning monetary systems.

Resources:

- http://www.transaction.net/money/glossary.html

Barter

The direct exchange of goods and services for other goods or services without any medium of exchange such as money. "Barter" is often used informally for various different kinds of trade networks and one even sees the expression "Barter Currency." In this case it simply means that the trade network is extremely local and depends on a face to face kind of community.

BerkShares

A scrip used in the area of Great Barrington, Massachusetts to encourage local trade.

"Shoppers received one BerkShare for every $10 they spent at participating stores, which paid $150 each to fund the program. On three consecutive days in September, consumers used BerkShares like federal dollars at stores for 25 to 100 percent of the purchase price of goods."

Resources:

Susan Witt, E. F. Schumacher Society,
Great Barrington, MA

Berry, Wendell

An essayist living and writing in Kentucky, whose subject is the relationship of culture, agriculture, and ecology.

Black Market

The terms "Black Market" and "Gray Market" both refer to extra-legal economic activities. "Black Market" tends to refer to the more violent areas dominated by organized crime which includes the illegal drug market as well as arms smuggling, prostitution and other forms of oppressive activities. The "gray market" on the other hand, refers to those milder forms of enterprise that poor people who can't afford government permissions often undertake. These activities including pushcart merchandising, taking over unused real estate by squatting, and basically any kind of low investment enterprise. In some countries, where it has been shown that it can take several years to buy a house or get through the red tape necessary to start a small business, the majority of a nation's economy may actually exist in the gray market.

See also:

- Gray market
- Informal Sector
- Convertibility

Bond

A certificate issued by a government or institution at a certain price, with a guarantee that it will be redeemed after a given period of time for a higher price—governments and institutions issue bonds to raise money, kind of like taking out a loan from a bank, only the investors, this case, are making the loan directly to the bond issuer. When the stipulated time period has elapsed and the bond is redeemed, it is said to have “matured.” After a bond has been issued, it can be traded to another party who can redeem it instead of the original purchaser. Bonds are generally considered to be low risk investments that deliver a relatively low return.

See also:

- Bond Market
- Financial Market
- Junk Bonds

Bond Market

Between the time a bond has been initially sold and the time it is redeemed, it can be traded. The bond market includes both the initial sale of bonds and this trading that goes on while bonds mature. This secondary trade heavily influences the amount for which bonds are initially sold. The bond market is said to react in an inverse relationship to the rest of the economy. Bonds become desirable (therefore expensive) when the stock market is doing poorly. When the stock market is rising, bond sales tend to be sluggish and prices correspondingly low.

See also:

- Financial Market

Borsodi, Ralph

Ralph Borsodi [Dates] was a social philosopher who ran a one year experiment in Exeter, New Hampshire, called “The Exeter Experiment”, in which he created a currency backed by a diverse “market basket” of commodities. He also deposited a large sum of his own money [$100,000?] in a local savings bank as extra security in order to encourage confidence in the new currency.

See also:

- Arbitrage
- Exeter Experiment
- Global Reference Currency (GRC)

Bretton Woods

A town in New Hampshire where the "Bretton Woods Agreement" was finalized after World War II after negotiations mainly between the British and the U.S.. The system has also been called the "dollar/gold equivalence standard", because it gave the status of official global reserve currency to the US dollar on the condition that the United States guarantee the convertibility of dollars into gold on the demand of other Central Banks. In August 1971, President Nixon reneged on that clause by "closing the gold window" when France and the UK requested such redemptions. This also inaugurated the era of "floating" exchanges” in which the values of each currency and of gold would be left free to be determined by market forces.

Resources:

http://www.transaction.net/money/glossary.html

See also:

- Money, Creation of

Capital

Capital is often thought of as money that has been invested, either in stocks or in financial instruments. The true meaning of the word, however, is “the means of production.” Capital is any tool, building, system, or information network, that is used in conjunction with labor to produce some good or service. The ownership of capital is the source of all great wealth. The reason the term has become confused is that, to be really effective, capital must be coupled with liquidity.

See also:

- Capital
- Development

Central Bank

An organization which is officially in charge of managing a nation’s currency. Some Central Banks are owned by private banks. Central Banks are responsible for the internal stability (e.g. inflation-fighting) and external stability (i.e. value when traded against other national currencies) of their national currency. Central banks have a variety of means at their disposal to achieve these aims, including intervention (buying or selling the national currency in the market in exchange for other national currencies); interest-rate fixing; or fixing reserve requirements for the private banks. All these techniques really boil down to fixing the maximum quantity of fiat currency that the private banks will be capable of issuing and at what cost.

Resources:

http://www.transaction.net/money/glossary.html

See also:

- Bretton Woods
- Federal Reserve
- National Bank

Clearing

In any economy, a large number are debtors while others are lenders. Often debtors and lenders are the same people. Clearing refers to a process by which information is compared so that debts can be canceled.

Resources:

Collaborative Automatic Clearinghouse, by Martin (Hasan) J. Bramwell

http://www.geocities.com/trudy_cool/new/en/cach.html

See also:

- Clearinghouse

Clearinghouse

In standard parlance, a clearinghouse is “an institution where claims by various banks against each other are offset. this greatly reduces the need for transfers of funds between banks, as each bank need only remit the net excess of its gross payments out over gross payments in, or receive the net excess of payments in overpayments out.”

A clearinghouse can also be a membership institution formed to resolve transactions of value between members. An Automatic Clearinghouse is a computer system dedicated to debiting and crediting accounts according to received transaction instructions.

Resources:

Collaborative Automatic Clearinghouse, by Martin (Hasan) J. Bramwell

http://www.geocities.com/trudy_cool/new/en/cach.html

See also:

- Clearing
- Credit Money Supply

Commodity Backed Money

See:

- Commodity Money
- Commodity-backed Currency
- Commodity-valued Currency
- Credit Money Supply
- Money, Creation of

Commodity Money

Money that is backed by a commodity, such as gold, or a "market basket" of commodities. A bank, institution or other person will buy a certain amount of the commodity(ies) and hold them as collateral for claims against money the bank loans out. Bob Swann once started a currency backed by cordwood! (see Gold standard)

See also:

- Commodity-backed Currency
- Commodity-valued Currency
- Credit Money Supply
- Money, Creation of

Commodity-backed Currency

A currency whose value is guaranteed by the physical availability of a commodity (or service, more recently) which “backs” the currency. The owner of backed currency can normally ask for delivery of the physical good or service in exchange for the currency. Backed currency is issued by whomever owns the product or service accepted as backing.

Resources:

http://www.transaction.net/money/glossary.html

See also:

- Commodity Money
- Commodity-valued Currency
- Credit Money Supply
- Money, Creation of

Commodity-valued Currency

A currency is said to be valued by a commodity if its value is tied directly to the value of that commodity. Under the gold bullion standard, the value of each currency was expressed in terms of the value of a fixed quantity of gold.

Resources:

http://www.transaction.net/money/glossary.html

See also:

- Commodity Money
- Credit Money Supply
- Money, Creation of

Complementary Currency System

We are accustomed to considering only our national currencies as 'real' money. Because national currencies have been designed for specific purposes only, and cannot fulfill certain social objectives, such as fostering trade and cooperation, or ecological sustainability, some currencies already operational today or being proposed for the future are designed to fulfill such objectives. These operate best when they are used in tandem with the national currencies.

Resources:

http://www.transaction.net/money/comp/

See also:

- Alternative Currency
- LETSystem
- Local Currency

Convertibility

The degree of ease with which a currency can be exchanged for another.

Sometimes agreement is made between different currencies or currency systems to set a ratio for exchanges between their units. At other times the rate of exchange is left to the market. The exchange rate for most national currencies is determined by markets. It sometimes occurs that regulations are introduced to prevent a currency from being exchange for another. If people have an interest in converting it, black markets are to be expected.

Resources:

http://www.transaction.net/money/glossary.html

See also:

- Black Market
- Exchange Rate

Credit

See also:

- IOU, Money As

Credit Money Supply

A system, such as that in the U.S. economy, in which money is issued by lending. This can be contrasted with a gold or commodity backed currency. (see Federal Reserve System, Commodity backed currency, Gold Standard, Clearinghouse)

See also:

- Commodity Backed Money
- Commodity Money
- Commodity-backed Currency
- Commodity-valued Currency
- Federal Reserve
- Gold Standard
- IOU, Money As
- Money, Creation of

Currency

Money (emphasizes the "medium of exchange" function of money).

Deflation

A state of "negative" inflation. In other words, a state in which prices are, on average, falling. A deflation usually accompanies a severe contraction of the economy, or recession. This is called a "depression." The last big depression in the USA happened in the 1930s.

See also:

- Stagflation

Demand

The amount of a good or service that can be sold at a given price. There is a simple mathematical formula for calculating demand and for plotting demand as a linear curve on a graph. These symbolic representations are useful for getting a grasp of the concept but can be misleading when applied to specific economic situations.

See also:

- Supply And Demand

Demurrage

A charge for money that is being held or stored.

A Demurrage charge acts like a "negative interest rate" and is designed into some currency systems as a disincentive to hoard. With demurrage, savings can then occur in forms other than accumulation of money. Silvio Gesell developed a theory that because money is like a public service (like public transport), a charge is justified. Both John Maynard Keynes and Irving Fisher provided theoretical foundation for this approach, and it was implemented in the "stamp scrip" of the 1930's. For a more detailed description of how demurrage charges can be applied to today's currencies, see Bernard Lietaer's "Community Currencies" article.

Resources:

Lietaer, Bernard, "Community Currencies"

http://www.transaction.net/money/gc/gc01.

http://www.transaction.net/money/glossary.html#demurrage

See also:

- Discounted Cash Flow
- Global Reference Currency (GRC)
- Interest And Inflation Free Money
- Kennedy, Margrit
- Lietaer, Bernard

Demurrage Charge

Resources:

http://www.transaction.net/money/glossary.html

See also:

- Demurrage

Depreciation

The decrease in value of any good, commodity, or unit of currency.

Resources:

- http://www.transaction.net/money/glossary.html

Developed Economy

An economy, such as that of the United States, in which the use of capital is thoroughly exploited in order to achieve a high level of productivity from labor. (It should be noted that some economists believe that the division of the means of production into capital, labor, and resources can be misleading.) (see Kelso, Louis; Development,; Capital)

See also:

- Stagflation
- Underdevelopment

Development

The process by which an economy based primarily on agriculture and labor increases its productive capacity by increasing its ability to take advantage of capital. By implication, economic development goes along with the development of industry, manufacturing and communication networks.

See also:

- Capital
- Capitalism
- Stagflation
- Underdevelopment

Discounted Cash Flow

Calculates the value of a future cash flow in terms of an equivalent value today. For instance $100 a year from now is the same as $90.909 today if one uses a discount rate of 10%, because $ 90.909 dollars invested for 1 year at a risk-free rate of 10% will yield exactly $100. Because of this, some economists believe that interest-bearing currencies favor "today's money over tomorrow's resource," while demurrage charges encourage investment in sustainable productive resources.

Resources:

http://www.transaction.net/money/glossary.html

See also:

- Demurrage
- Kennedy, Margrit
- Lietaer, Bernard

eMoney

see Electronic money.

See also:

- Medium Of Exchange

Economics

The study of the actions of market based systems of production

Elasticity

This is a measurement of how much a change in price will affect either demand or supply or, inversely, how much will a change in supply or demand effect price. For instance, a fairly large change in the price of coffee or gasoline will not greatly change consumer behavior (demand) very much in the short term because they are locked into their need for coffee and transportation. So, in the short term, demand for these goods is "inelastic." Over a longer period of time, however, a rise in the price of gasoline might cause a society to seek other means of transportation than automobiles and thus reduce the demand for gasoline considerably. Supply and demand can have a drastic effect on prices. For instance, a slight decrease in oil supply from the OPEC nations can cause the price per barrel of crude oil to skyrocket. We say that the price of oil is highly "elastic".

See also:

- Supply And Demand

Electronic Money

Money that exists primarily in the form of electronic information on a computer. A debit card or a Cash Card are current examples of electronic money. When you buy a phone card, you exchange dollars for a form of electronic money that is restricted to use making long distance phone calls.

See also:

- LETSystem
- Medium Of Exchange

Equilibrium

This is the price at which Supply equals Demand. You can flip this around and say that, for any given price, a certain amount of a good or service will be purchased and a certain amount will be supplied by firms. Equilibrium happens at the price at which the amount that consumers want to purchase equals the amount firms are supplying. If these two are not equal, than either firms will lower their prices in order to get rid of excess inventory and, perhaps go out of business until production has been sufficiently decreased, or they will increase production and more firms will enter the market until demand has been met. A change in price will be reflected in both a change in demand and a change in supply.

See also:

- Supply And Demand

Exchange, forms of

There are three basic modes for the exchange or transference of goods and services. They are:

1. Gift
2. Market Exchange (trade, barter, and sale)
3. Theft (Theft of goods and thef to of services, or slavery)

See also:

- Gift Economy
- Hyde, Lewis
- Market
- Product
- Theft

Exchange Rate

In systems with negotiated exchange rates, as opposed to fixed exchange rates, the value of the currency is negotiated as part of the transaction itself. Currently, under floating exchange rates, all national currencies have negotiated exchange rates among each other.

See also:

- Convertibility
- Peg (pegged Currencies)

Exeter Experiment

See also:

- Borsodi, Ralph
- Global Reference Currency (GRC)

Exponential Growth

Growth that increases by a fixed percentage for a given time period. This is the growth pattern typical of interest baring investments. At a rate of 5% interest, $100 will be worth $110 after one year, $121 after 2 years, after 10 years it will be worth $259.37 and after 20 years, $672.75. In the short term, Exponential Growth is relatively slow, but as time goes on, each increase becomes much greater than the one before it. One of the arguments against current systems of interest is that they are unsustainable and lead to the transfer of wealth from workers to people living off of capital investments, refereed to on a U.S. tax return as “Unearned Income”.

See also:

- Inflation
- Interest
- Kennedy, Margrit
- Linear Growth

Federal Reserve

The Federal Reserve is the system of banks that the United States uses as its central bank for issuing money, setting rates of interest, and controlling inflation. The "Fed" is a crossover between the private banking system and the federal government and it works somewhat independently from congress or the executive branch.

Resources:

William Greider, Secrets of the Temple: How the Federal Reserve Runs the Country

See also:

- Central Bank
- Credit Money Supply
- Fiat Currency
- Money, Creation of
- Money, Destruction Of

Fiat Currency

Currency created by fiat (Latin, "let it be made" or "let it be done") whose value is guaranteed by the authority issuing it rather than by any external reference or backing. All national currencies today are issued and managed by Central Bank fiat. Ithaca HOURS, an alternative currency, is also issued by fiat. When you join the HOURS community, you agree to accept HOURS and pay US$20 and are issued two HOURS in return.

Resources:

Beyond Greed and Scarcity

http://www.transaction.net/money/glossary.html

See also:

- Central Bank
- Federal Reserve
- IOU, Money As
- Money, Creation of
- Money, Destruction Of

Financial Market

The markets in which financial assets are traded. These include stock exchanges for trading company shares and government debt (including the bond market), the money market for trading short-term loans, the foreign exchange market for trading currencies, and a number of specialized markets trading financial derivatives. Most financial markets now operate minute-by minute via computer and telephone linkages rather than traders meeting in person, but many participants still prefer to be near to other major market participants, which is why financial markets tend to be concentrated in large business centers such as Frankfurt, London, New York, Tokyo, or Paris.

See also:

- Bond
- Bond Market
- Liquidity

Fixed Exchange Rate

The rate that is fixed by some authority at which one currency can be exchanged against another. The Bretton Woods agreement from 1945 to 1971 instituted fixed rates, which were replaced with "floating" exchange rates after the agreement was abrogated by the United States in 1972.

Resources:

http://www.transaction.net/money/glossary.html

Floating Exchange

Rate at which one currency can be exchanged for another as determined by bidding and asking in the foreign exchange market. This has been the regime for most national currencies since 1972.

Resources:

http://www.transaction.net/money/glossary.html

See also:

- Bretton Woods

Friedman, Milton

Leading economist of the “Chicago School” of economics. Friedman is a monetarist and developed theories based on the work of Irving Fisher. He advocated abandoning Keynes’s idea of controlling business cycles through demand-side economic manipulation in favor of “Supply-side” techniques involving strict control of the supply of money. President Reagan and the present “neo-conservatives”, especially Newt Gingrich, were heavily influenced by the ideas of Friedman and the Chicago School.

See also:

- Monetarism

GDP

see Gross Domestic Product

See also:

- Gross Domestic Product (GDP)

Gift Economy

Some societies rely to a large extent on gift giving rather than barter, trade, or other forms of commerce for the exchange of goods. There is some controversy over the benefits of Gift Economies Bernard Lietaer seems to feel they are basically good. Some anthropologists, however, have pointed out that many of these societies are extremely competitive and hierarchical. It seems fairly clear that the giving of gifts forms affective (emotional) social bonds that are missing in market based transactions, which, in contrast, tend to be emotionally alienating. For a full discussion, see Lewis Hyde, The Gift: Imagination and the Erotic Life of Property, also, Marcel Mauss’s famous Essai sur le don (available in translation as “The Gift” and Godelier, Maurice; The Enigma of the Gift.

Resources:

Lewis Hyde, The Gift: Imagination and the Erotic Life of Property

Mauss, Marcel: Essai sur le don (Eng: The Gift)

Godelier, Maurice; The Enigma of the Gift

http://www.transaction.net/money/glossary.html

See also:

- Exchange, forms of
- Theft

Global Reference Currency (GRC)

A proposed currency which would use a fixed basket of a dozen commodities as a reference and backing of a currency designed for international trade. The cost of storage of the commodities backing would be passed along to the bearer, and functions therefore as a built-in demurrage charge. These features are thought to reverse the tendency to discount the future, and therefore realign corporate financial interests with long-term sustainability.

Resources:

http://www.transaction.net/money/glossary.html

See also:

- Borsodi, Ralph
- Demurrage
- Exeter Experiment

GNP

Gross National Product (see Gross Domestic Product)

See also:

- Gross Domestic Product (GDP)

Gold Standard

A system of currency in which banks hold reserves of gold (or silver) to back up the currency (loans) they issue. In a gold backed currency, anyone holding a certificate can exchange it for the amount of gold indicated. In practice, banks would loan more certificates out then the value of the gold they held in reserve. In practice, very few certificates were actually cashed in for gold. This is the basis for the cash reserves banks are still required to hold. One of the problems of a gold standard is that when there is a run on a bank, as in the crash of 1929, banks may not be able to meet the demand of their creditors for gold. (see Reserves)

See also:

- Arbitrage
- Borsodi, Ralph
- Bretton Woods
- Credit Money Supply

Goods and Services

Economic goods include any material object that can be sold, bartered, or purchased. Services are actions performed by a person, institution, company, or organization which are sold, bartered, or purchased. The trade in goods and services in economic terminology is called "Product". Items and activities that are not traded in a market, such as the care and food we provide for our children, are not considered to be economic goods and services, they are not "product."

See also:

- Gross Domestic Product (GDP)
- Product
- Productivity

Grameen Bank

The Grameen Bank is a Bangladeshi organization whose purpose is to promote economic development among the extremely poor by making small, low interest loans available to women through support groups of these same women who are organized by the central Grameen Bank organization. These women's groups issue the loans and support each other in the creation of micro-enterprises.

Resources:

http://www.grameen-info.org/bank/

See also:

- Micro-Credit
- Micro-Lending
- Micro-Loan
- Yunus, Muhammad

Gray Market

Also called the "Informal Market," the gray market consists of extra-legal, but not violently criminal, economic activities. In many underdeveloped countries the gray market is much more vital than the legitimate domestic economy. But entrepreneurs in the gray market often suffer from illiteracy, a lack of currency, and a general disconnect from distant markets (like the next town) so it is very difficult for gray marketeers to gain the legitimacy needed to engage in legal foreign trade and they are often locked into the lower half of a dual economy.

See also:

- Dual Economy
- Black Market

Gross Domestic Product (GDP)

Generally known as "GDP", Gross Domestic Product is the sum of all the goods and services that are traded within a nation. It is calculated on an annual basis. The current U.S. GDP is running at around 11.5 trillion dollars.

Resources:

http://www.bea.gov/

See also:

- GDP
- Goods And Services
- Product
- Productivity
- Supply And Demand

Gross National Product (GNP)

This measurement is not used by economists very much any more. It has been replaced by the more useful measurement "Gross Domestic Product." This is because the GNP included a great deal of economic activity that was being carried on by Americans overseas and did not effect the domestic economy.

See also:

- GDP

Hyde, Lewis

See also:

- Exchange, forms of

Inflation

A economic state in which the average price for goods and services is rising. Inflation is measured as an annual percentage increase, e.g. if the average price for the same goods and services is $10 trillion in 2002 and $11 trillion in 2004, we would say there was a 10% rate of inflation (not real figures.) Inflation has several causes. When there is "too much money chasing too few goods" prices will rise. But it is also true that prices can rise when the cost of production increases for other reasons. These reasons often originate outside of a given nation or region of a nation. Thus, prices can rise in Maine or Alabama even though there is very little money in circulation and a high level of unemployment in those regions. This condition can happen nationwide, too. For instance, the increase in the price of oil from the Middle East could increase inflation in the United States.

Resources:

http://www.transaction.net/money/glossary.html

See also:

- Exponential Growth
- Recession
- Stagflation

Interest

Interest is a charge paid for a financial loan. It is usually paid as a percentage of the loan and is tied to a certain time periods both for payments of the interest and for repayment of the loan. In modern economies interest is compounded either at certain time periods (monthly, yearly, etc.) or continuously. Loans are generally paid off in increments along with payments of interest. While loan payments remain the same over the repayment period, the proportion of each payment that goes to the payment of interest to that which goes to the repayment of the principle decreases over the course of the loan's repayment.

Simple interest is where interest is not not actually paid out, but is added to the principal of a loan each [time] period, the amount added is the same each period. Compound means that, again where interest is not actually paid out to the lender, the amount to be added to the loan each period is the same percentage of the debt already accumulated: compound interest thus includes interest on past interest.

The "real" interest rate is the interest rate corrected for inflation.

Resources:

http://www.transaction.net/money/glossary.html

See also:

- Exponential Growth
- Interest And Inflation Free Money
- Usury

Interest And Inflation Free Money

The title of a book by Margrit Kennedy in which she argues that present systems of money are inherently unstable and lead to poverty among most of the earth's population, as well as war and other forms of social collapse. She offers as an alternative a system based on more organic models which would include a "Circulation Fee" so that money would devalue itself over time if it wasn't used.

See also:

- Demurrage
- Interest

International Monetary Fund (IMF)

The international organization based in Washington D.C., which administers the Bretton Woods Agreement. The U.S. is the only country with veto power over IMF decisions.

Resources:

http://www.transaction.net/money/glossary.html

IOU, Money As

A receipt for value received (money, goods, or services) which promises repayment in some form.

See also:

- Credit
- Credit Money Supply
- Fiat Currency

Ithaca Hours

A local currency in Ithaca, New York, started by Paul Glover.

See also:

- Alternative Currency
- Backed Currency
- Local Currency

Jacobs, Jane

Author of many books on urban design, planning, and economics. Her book, Cities and the Wealth of Nations, examines the role of city economies in relation to general economic prosperity.

Resources:

Jacobs, Jane; Cities and the Wealth of Nations

Junk Bonds

Bonds issued on very doubtful security. The finances of the firm issuing them are regarded as so insecure that there is serious doubt as to whether the interest and redemption payments promised will actually be made. Junk bonds are thus risky to hold, and lenders will only hold them if the promised returns are high enough to give an acceptable expected rate of return, after allowing for a non-negligible probability of default.

Resources:

The Oxford Dictionary of Economics

See also:

- Bond

Kelso, Louis

Louis Kelso takes the problems of unequal distribution as analyzed by Karl Marx and creates a theory of how these problems might be overcome in a capitalist or market based economy. A major part of the solution he envisages involves a plan to enable ordinary people to acquire ownership of capital. With its thought provoking message, Kelso's work is also quite succinct and readable. We recommend a visit to the Kelso Institute website.

Resources:

http://www.kelsoinstitute.org/downloadable-books.html

See also:

- Capital
- Capitalism
- Marx, Karl
- Productivity

Kennedy, Margrit

Author of Interest and Inflation Free Money

Resources:

Kennedy, Margrit; Interest and Inflation Free Money

http://www.margritkennedy.de/

See also:

- Demurrage
- Discounted Cash Flow
- Exponential Growth

Kohr, Leopold

An economist and author who advocated "disuniting" as a solution to economic and social problems. His major published works are, The Breakdown of Nations, The Overdeveloped Nations, and Development Without Aid. An original thinker, Kohr, who never lost his sense of humor, stated that "bigness" is the source, not of some, but of all social problems.

Resources:

Kohr, Leopold; The Breakdown of Nations

Kohr, Leopold; The Overdeveloped Nations

Kohr, Leopold; Development Without Aid

Labor Theory of Value

The labor theory of value holds that all value originates in a person's labor and, therefore, that exorbitant profits which to to the owners of capital can be seen as a kind of theft. (see Supply and Demand; Marx, Karl)

See also:

- Capital
- Marx, Karl
- Supply And Demand
- Theft

Less Developed

A term coined to avoid the implied slur in "Underdeveloped." It means "poor."

See also:

- Developed Economy
- Development

LETSystem

A LETSystem (Local Exchange Trading System) is a trading network supported by its own internal currency. It is self-regulating and allows its users to manage and issue their own 'money supply' within the boundaries of the network. The LETSystem accounting service, run by a paid administrator, maintains a system of accounts for its users. All accounts start at zero and no money is deposited or issued. The unit of account is a measure equivalent to the pound sterling [USD in USA]. Accounting services are paid by users but no interest is charged or paid on balances.

Resources:

http://www.gmlets.u-net.com/

See also:

- Alternative Currency
- Complementary Currency System
- Electronic Money
- Mutual Credit System

Linear Growth

A growth pattern in which the same amount is added on for each time period; for example, if you save $1000 every year for your child's college education. The interest on your savings account, however, would be an example of "Exponential Growth.

See also:

- Exponential Growth

Liquidity

Labor and capital are two of the legs on which production rests, the third is liquidity. Liquidity refers to the ease with which assets can be transferred from one purpose to another. Money is, perhaps the most liquid form in which wealth can be stored. It has no value of its own, but it can be translated into almost anything that has economic value. An example of an "illiquid" asset might be a house. One lives in one's house and it cannot be sold or traded without a good deal of personal disruption and difficulty. However, in order to take advantage of the value of the asset one has in a house, one can take out a second mortgage, thus gaining access to the cash value of the house without actually having to move. The ability to use the house as security for a loan increases the liquidity of the house as an asset. Because liquidity is so important in increasing the ease with which economic transactions can be made, the manipulation of liquidity has become a service that can be bought and sold. This is the essence of the business of banking and of the financial markets.

See also:

- Capital
- Financial Market

Local Currency

An alternative system of money that exists in a geographically limited region, smaller than a nation, and which is usually organized by a non-governmental organization or bank. The purpose of local currencies is often to enhance the local economy by encouraging local trade or to create a more dependable medium of exchange in countries like Ecuador or Argentina where the instability of the national currency makes transactions risky or impossible.

See also:

- Alternative Currency
- Complementary Currency System
- LETSystem
- Sintral

M1

Transaction money. Money that exists in the form of coins and bills. In the United States this would include all pennies, nickels, dimes, quarters, and paper dollars.

See also:

- M2
- M3
- Money

M2

Money that is included in "M1" plus all savings that is easily converted to transaction money such as deposits in checking accounts.

See also:

- M1
- M3
- Money

M3

Money that is included in M1 and M2, plus less liquid assets and savings. (see M1, M2, Liquidity)

See also:

- M1
- M2
- Money

Macroeconomics

The study of large economic systems such as those of nations.

Market

A market is a place or social organization in which goods and/or services are exchanged either for money or for other goods and services.

See also:

- Exchange, forms of
- Theft

Marx, Karl

Karl Marx, 1818–1883, was one of the most influential economic thinkers of the nineteenth century. While some of the political systems that were later based on his writings were horrendous failures, his critique of capitalism still stands as one of the most brilliant intellectual analyses of modern times. Though many people reject "Marxism" out of hand, a great many of the ideas that we take for granted nowadays originated with him.

See also:

- Kelso, Louis
- Labor Theory of Value

Medium Of Exchange

Anything which is recognized as standing in the place of some value for the purpose of facilitating trade, i.e. money. Gold has been used extensively as such a medium, but nowadays, paper certificates such as dollars are used. While many confuse the Medium of Exchange for an actual thing of value in itself, it can also be understood simply as a record of a debt, like an IOU. Money is coming to be understood more and more as a system of information—just as good residing in a computer database as sitting in your wallet.

See also:

- Commodity Backed Money
- Commodity Money

- Commodity-backed Currency
- Commodity-valued Currency
- E-money
- Electronic Money
- Money

Micro-Credit

Programs which aim to jump start economies in very poor areas by making small loans available to poor people at low rates of interest usually not available to them. These loans facilitate small scale enterprise. Micro-credit programs such as the Grameen Bank in Bangladesh have been hailed as systems opening the door to economic development and empowering the poor. They have also been criticized as chimera that distract activists from the true, macroeconomic causes of poverty.

Resources:

http://www.transaction.net/money/glossary.html

See also:

- Grameen Bank
- Macroeconomics
- micro-lending
- Yunus, Muhammad

Micro-Lending

See:

- Micro-credit

Micro-Loan

A very small loan usually made for the purpose of facilitating a small scale enterprise. (see Micro Credit.)

See also:

- Grameen Bank
- Micro-Credit
- Yunus, Muhammad

Microeconomics

The study of the economics of persons and companies within the context of the larger economy.

Monetarism

An economic theory which holds that the inflation is a result of the way banks create money by issuing a greater amount in loans than they have cash reserves to cover. Monetarists hold that the government should issue sufficient money to cover all economic activity and that the amount of money in circulation should be increased at a steady rate which matches the rate at which the economy should be growing, and that banks should maintain 100% reserves of the loans they make.

"When money and output grow at the same pace, demand and supply remain in balance and prices on average are stable." David I. Meiselman

See also:

- Friedman, Milton
- Money Supply
- Reserves

Money

The "official" definition of money is more a set of 3 rules about what money does then a definition. Here it is as you will find it in a first year economics textbook:

1. Money is a store of value,
2. Money is a medium of exchange,
3. Money is a measure of value.

Resources:

http://www.transaction.net/money/glossary.html

See also:

- M1
- M2
- M3
- Medium Of Exchange
- Money, Creation of
- Store Of Value

Money, Creation of

There are only 3 ways of designing a currency system:

1. fiat (i.e. without reference to anything else). Fiat money is generally created through lending. A bank will lend money and mark a debit in its accounts. The money is thus "created." It is destroyed as the loan is repaid and the bank eliminates the debit;
2. valued by a commodity, when its value is expressed of terms of the value of that commodity (whether or not it is redeemable in that commodity—e.g.: Bretton Woods dollar-gold equivalence standard; airline miles); or
3. backed by a commodity, when the currency is in fact a claim to a given quantity of that commodity (which typically requires to have a stock of that commodity on hand to meet such requests).

See also:

- Commodity-backed Currency
- Credit Money Supply
- Fiat Currency
- Money
- Money, Destruction Of

Money, Destruction Of

Fiat money, such as the U.S. dollar, is generally "loaned into existence." In other words, the Central Bank (Federal Reserve) loans money to its member banks by simply writing a debit into its ledger. Money is "destroyed" when the loan is repaid and the ledger is returned to a balance of zero.

See also:

- Federal Reserve
- Fiat Currency
- Money, Creation of

Money Supply

The money supply refers to the amount of money that is in circulation. The supply of money is an important factor in thinking about local or alternative currencies, because one of the reasons for creating such a currency is that local regions are sometimes starved for currency by the larger economic system and this leads to a locally depressed economy. The amount of economic activity in a region is not controlled just by the supply of money. The "velocity" with which the money circulates fills out the equation. In other words, a hundred dollars that trades hands once a month enables much less economic activity than a hundred dollars that trades hands ten times during that same month.

See also:

- Monetarism
- Money, Creation of
- Velocity

Mutual Credit System

A system in which the currency necessary to mediate a transaction is created at the time of the transaction as a corresponding credit and debit in the balances of the two parties. These systems (LETSystem and Time Dollars, and the proposed ROCS), unlike fiat currencies, do not require any centralized money supply management.

Resources:

http://www.transaction.net/money/glossary.html

See also:

- LETSystem

National Bank

Also called a "Central Bank", a National Bank is the official bank of a nation and the bank that issues its currency. Most countries have a national bank but the United States, strictly speaking, doesn't. Instead, for central banking purposes including the issuance of its currency, the dollar, the United States uses the Federal Reserve System, an organization of "Federal Reserve Banks" that is operated in cooperation between private banks and the Federal Government. The chairman of the Federal Reserve System is appointed by the U.S. president but is not accountable to either the executive branch or to congress. (see Central Bank)

See also:

- Central Bank

Payment Method

Procedure by which the transfer of a currency is executed from one person to another.

Resources:

http://www.transaction.net/payment/

Peg (pegged Currencies)

One often hears that some currency or other in a developing country has been "Pegged" to the dollar. This means that the national bank of that country has guaranteed that it will reimburse the barer of its currency with U.S. dollars at a fixed exchange rate.

See also:

- Exchange Rate

Product

A good or service that is traded, bought, or sold. The word Product can also be used collectively to mean the sum of Goods and Services which are traded, as in "Gross Domestic Product" or "the product of India's economy." Goods and services that are given or that are stolen are not counted as product.

See also:

- Exchange, forms of
- Goods And Services
- Gross Domestic Product (GDP)
- Supply And Demand

Productivity

This usually refers to the productivity of labor. In other words, the amount that an individual or a group of workers can produce in relation to how much it costs to produce it. In recent decades, as capital inputs such as computers have increased productivity so much, some have begun to compare labor productivity with capital productivity. Margrit Kennedy argues that production should be taxed rather than income because "...incomes of machines [capital] are not taxed..." Louis Kelso suggests that, since increases in capital inputs have in many cases more influence on productivity than increases in education or skill on the part of labor, wider ownership of capital is essential in order to prevent widespread unemployment and poverty.

Resources:

Kennedy, Margrit; Interest and Inflation Free Money

Kelso, Louis; The Capitalist Manifesto

http://www.margritkennedy.de/

http://www.kelsoinstitute.org/downloadable-books.html

See also:

- Goods And Services
- Kelso, Louis

Real Interest

See Interest

See also:

- Interest

Recession

A state in which the growth of an economy (GDP) is shrinking. An economy can be in recession even though the GDP is rising if the rate of inflation is rising at a faster rate than the GDP is growing.

See also:

- Gross Domestic Product (GDP)
- Inflation
- Stagflation

Reserves

Money that banks are required to hold against the loans they make. In the United States banks are required to hold 10% cash reserves against loans. In the case of a run on a bank, the Federal Reserve system, insures that the bank will be able to get short term loans from the banking system to cover itself.

See also:

- Commodity Backed Money
- Commodity Money
- Commodity-backed Currency
- Commodity-valued Currency

Scarce Currency

A condition in which there is not enough currency in circulation to meet the needs of the economy. This can be caused by a simple lack of currency, or it can be caused when currency is not being used at a fast enough rate. The effective amount of money available is a function of both quantity and the velocity with which it is being exchanged.

See also:

- Sufficient Currency
- Velocity

Scrip

"Scrip" (short for subscription receipt) refers to the issuance of paper certificates which represent some specific value and which can be used as money. Scrip can be created which is backed by some kind of commodity or service, or which is simply a statement of debt, like an IOU. The American Heritage Dictionary stresses the temporary nature of Scrip, saying, "Paper money issued for temporary, emergency use." and, "A provisional certificate entitling the holder to a fractional share of stock or of other jointly owned property.

Security

A paper asset. Securities include government debt, both long- and short-term, company shares, and company debt. Securities may be registered, where legal ownership depends on the entry in a register, normally run by a bank, and the paper is merely evidence of ownership, or in bearer form, where ownership is conferred by possession of the document.

Seigniorage

A fee charged by the government or bank to cover the cost of producing and administering money.

Services

Economic goods which do not take a tangible and storable form. In some cases these require the physical presence of the customer, as for example with hairdressing, medical treatment or live entertainment. In outer cases services can be performed at a distance: for example, legal representation or insurance. Service industries are parts of the economy providing services. These are collectively referred to as the "tertiary sector," and are an increasing part of total activity in advanced economies.

Sintral

A LETSystem type of trading network in Ecuador started by Mauricio and Rebeca Wild. Sintral has been especially useful in creating trade relationships between high and low altitude farmers who were badly effected by the collapse of the Ecudoran "Sucre" and its replacement by the US Dollar in 2000.

See also:

- LETSystem

Stagflation

A condition (not possible according to classical theories of economics) in which both unemployment and inflation are high at the same time. Stagflation was a term coined in the 1970s to describe the economic state at the time. Jane Jacobs points out rather pungently in "Cities and the Wealth of Nations" that stagflation is actually the normal state of affairs in economies which are not developing or in which development has stopped.

See also:

- Deflation
- Developed Economy
- Development
- Inflation
- Recession

Store Of Value

Anything that can be held for a time before being exchanged for goods and/or services. Money can be used as store of value. Before the Industrial Age, the main storage of value was land, land improvements, and livestock. Today people store value in stocks in companies investing in assets that keep, or increase in, value over time, such as forests, etc.. There is a social cost in using currency as store of value, because when currency is stored it is unavailable for transactions by other people.

Resources:

http://www.transaction.net/money/glossary.html

See also:

- Demurrage
- Money

Sufficient Currency

Currency sufficient for the needs of the economy.

See also:

- Money Supply
- Scarce Currency
- Velocity

Supply

See:

- Supply And Demand

Supply And Demand

In economic terms, Supply is the amount of any good or service that is available at a given price. Likewise, Demand is the amount of a good or service that will be purchased at a given price. Working this equation in reverse, the relationship of Supply to Demand is one of the main factors determining the price of a good or service.

See also:

- Demand
- Elasticity
- Equilibrium
- Gross Domestic Product (GDP)
- Supply

Theft

Theft is the taking by force of goods that are considered by a society to be property. It is one of the three ways that property passes from one holder to another, the other two being as gifts and through some sort of market (quid pro quo) transaction.

See also:

- Exchange, forms of
- Gift Economy
- Market

Transparency

Transparency in economic terms refers to the ease with which the economic activity of a company or organization can be seen and understood from the outside. It is the opposite of secrecy and obfuscation. Transparency can be a good thing for the society at large, but it can be risky for a company, not only when their financial doings are shady, but also when their activities are seen but misinterpreted or when their competitors use the information against them.

Underdevelopment

The state of a nation or region in which capital investment continually fails to take hold, leaving the people poor.

See also:

- Developed Economy
- Development

Unit Of Account

The unit by which value is accounted and compared. For instance: if pears are at $3 per pound, while apples are at $2 per pound, the common unit, in this case the dollar, allows an easy comparison of the prices or values of the two items.

Resources:

http://www.transaction.net/money/glossary.html

Usury

An archaic term for the practice of loaning money at interest. Usury is forbidden in Torah (Old Testament) and in the Koran, though, in Jewish law it is actually only forbidden for Jews to loan at interest to other Jews. The Roman Christian Church originally held that, since all men were brothers, the prohibition on usury was universal; therefore, Christians were not permitted to charge interest on loans. This was one of the causes of the conflicts in Europe between Christians and Jews, as Jews came to dominate mediaeval financial markets. With the Reformation, the strictures against usury were largely lifted. Nowadays the term is mostly used to indicate interest rates that are unfairly high. Muslim law still prohibits charging interest on loans.

See also:

- Interest

Valued Currency

A currency is said to be valued by a commodity if its value is tied directly to the value of that commodity. For instance, under the gold standard, the value of each currency was expressed in terms of the value of a fixed quantity of gold.

Resources:

http://www.transaction.net/money/glossary.html

See also:

- Backed Currency
- Commodity Backed Money
- Commodity Money
- Commodity-backed Currency
- Commodity-valued Currency
- Gold Standard

Velocity

Velocity of money is a term coined by Irving Fisher in the 1930s, and refers to the speed at which a currency circulates. It can be expressed for instance as "a $5 bill circulates 50 times per month", which means that on the average a $5 bill would be traded 50 times per month generating a total of $250 in trades.

The relationship of an economy's productivity to the circulation of money is expressed mathematically as $P = (Q * V) / t$,; where P = productivity, Q = quantity of money, V = velocity and t = time.

Resources:

http://www.transaction.net/money/glossary.html

See also:

- Money Supply
- Scarce Currency

Yunus, Muhammad

Muhammad Yunus is the founder of the Grameen Bank in Bangladesh. The Grameen bank furnishes micro-loans to poor women and is considered to be the prototype for many similar micro-credit initiatives worldwide.

http://www.grameen-info.org/bank/

See also:

- Grameen Bank
- Micro-Credit
- micro-lending
- micro-loan