4 Incompatibility and Complementarity of the Chicago Plan and Alternative Monetary and Financial Mechanisms

Jean-Michel Servet and Tom Moerenhout[1]

In 2012, Jaromir Benes and Michael Kumhof,[2] both economists from the International Monetary Fund (IMF), revisited a well-known 1933 proposal that eventually became known as the "Chicago Plan."[3] The British newspaper *The Telegraph* described this publication as "IMF's Epic Plan to conjure away debt and dethrone bankers" (21 October 2012). Initially elaborated during the Great Depression, the Chicago Plan proposed to impose on banks the obligation to secure all money that they lent by means of a central deposit, managed by a centralized public institution that would also be responsible for overseeing financial and monetary institutions at large. Such a tactic would lead, in no small measure, to the termination of the ability of banks to create money through credit and through debt (McLeay et al., 2014).

Today, this plan still seems revolutionary in the true sense of the word. Its emphasis on the complete coverage of bank loans and the return of the central bank as sole body responsible for money creation remain radically opposed to dogmas that the neoliberal school of thought has put forward as economic certitudes ever since the 1980s. The Chicago Plan figures as both an alternative and an antidote to other proposals that favor the constitutional prohibition of or a severe limitation on public budgetary deficits.

Misinformed public opinion still believes in the existence of some sort of gold standard, with sovereign states creating money that is covered by a material deposit (such as gold) in the Central Bank. Recognizing money as debt (Graeber, 2011; Mitchell-Innes, 1913, 1914) promptly and masterfully rejected the belief that modern states are still in charge of monetary creation. However, since the ideological and political victory of neoliberalism over the Keynesian logic of state intervention, governments have been unable to finance their deficits by printing money and have been under pressure to borrow on financial markets, and banks have collectively imposed their dominance, so to speak, in the matter of monetary creation, prevailing over all other economic agents. The key evolution (and problem) in this episode of monetary history is that the dominance of banks in monetary creation was accepted without any requirement to deposit the same amount in Central

Banks or even the need being felt to demand it (McLeay et al., 2014). The apparent victory of neoliberal paradigms consolidated the independent position of banks as the creators of money—and therefore also of debt.

We are reminded here of George Friedrich Knapp's *State Theory of Money*, in which he theorized that in the context described, money became a "creature of law" rather than a commodity (Jeoffre, 1985). Writing in the context of the gold standard, Knapp argued that the value of money was no longer determined by the quantity of gold it could be exchanged for but rather that as the State created paper money, it could determine its exchangeability by means of regulation. However, it was in 1905 that Knapp pointed to "the State"; today we have to consider not public but private entities. Even though their capital may be owned wholly or partly by public entities, these institutions nonetheless act as if they were private actors. In fact, the operation of banks as monetary suppliers was for a long time felt to be a stimulant for economic growth, helpful to society at large. Banks were given the freedom to collect debt without offsetting it and to manage their banking systems with little consequence in the belief that together, the arrangement constituted a mutually beneficial trade-off. The combat against public budget deficits wiped out the countervailing power of the traditional sovereign regulator over finance.[4] The neoliberal era further extended this public competence to private financial institutions and to public institutions that had been privatized and deregulated.

Once these private financial institutions were granted—or had simply appropriated—the privilege of supplying money, they transformed into a speculative business this collective ability in order to supply liquidity by means of uncompensated debt—a business that proved capable of generating an exceptionally high surplus within the economic chain of value production. To put it in other words, finance became a mechanism of exploitation. Whereas Knapp's State was not only capable of but also responsible for managing the inflation and depressions that were due to its exercise of monetary powers (a functional perspective well developed in Keynesian economic theory), the dominant banks that created this new private speculative business did not assume any such responsibilities.

This particular ownership model also brought about a decrease in the share of salaries relative to the share of profits in the distribution of income. In itself, such disequilibrium feeds debt bubbles that contribute to the strain that the financial economy places upon the productive economy. Whereas in essence this type of speculation and share taking was nothing new, the relative weight of these bubbles in the systems of production and exchange grew considerably. Their use has been standardized, and they have acquired an unprecedented intensity. How the story finally unfolded is widely known. Speculative business became the pillar of a new, highly developed economic system that tended to fabricate and produce derivatives and debt. This economic system was thus not limited to stakeholders within the financial sphere but also locked in technological and regulatory producers such as

IT companies, government regulators, law firms, and the like . . . Whether this has been done willingly or even knowingly or not, the latter have all become part of a system that drives up debt. This debt then made possible mass exploitation as understood within Marxian tradition.

The result is pyramids of private debt that are diametrically opposed to any process of collective sharing in a system in which monetary engagement is under public control (an idea that we will develop in what follows). The full coverage of private loans proposed by Benes and Kumhof would thus constitute, so to speak, a collective treasury in a sovereign common institution. This idea can be conciliated with the particular role that Karl Polanyi accorded to "*treasure*", in which a treasure was not only functional in maintaining a currency's value (i.e. in allowing for the existence of a payment system) but also performed a crucial political function. Polanyi noted in 1977:

> Treasure should be distinguished from other forms of stored wealth. The difference lies mainly in its relation to subsistence. Treasure, in the proper sense of the term, is formed of prestige goods, including "valuables" and ceremonial objects whose mere possession endow the holder with social weight, power, and influence. It is a peculiarity of treasure goods that both giving and receiving them enhances prestige.
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> (Pearson, 1977: 109)

The treasure is thus an expression of sovereignty, which depends not only on collection and distribution but also on the relationships that it develops and maintains. The treasure makes it possible to (re-)connect independent members of a society or community by expressing them as a "totality" by means of this common property over which the group exercises hierarchical rights: this means simply that there is no free access to the common but, rather, structured access based on need. This access is profoundly political, as it affects the health and wealth of an interdependent society and has to be governed by the Sovereign (Oresme, 1989).

The role of currency in the relationship between State and society was addressed in the very first monetary treatise, written in French by Oresme in the 14th century. Oresme assessed the right of the Sovereign to decide whether to implement monetary transfers and to define the conditions under which he could and would do so. This ideal of public responsibility and of the role of money as a binding force in societies is not very marked in today's financial system. Can there be other antidotes to generalized liquidity than a return to control of debt and credit by the State? What financial practices in the field of the social and solidarity-based economy at present[5] could meet the same objectives as those of the Chicago Plan or achieve what appears to be impossible: that is, to oppose the project of free banking implicit in the dominance of private banks?

To answer this question, we will first highlight the diversity of alternative and complementary financial practices and the difficulty of comparing

practices of three very different orders: the implementation of a payment system (complementary currencies), the provision of loans guaranteed by means of a solidarity mechanism (solidarity-based microcredit), and associations (usually informal) that enable each of their members to benefit in turn from the other members' savings (rotating credit and savings associations). After that, we will discuss the origin and destination of the funds of the rotating credit and savings associations (ROSCAs) and of microcredit loans and also the money supply that is created when complementary currencies are set up. Subsequently, we will deal with a recent initiative linking certain local currencies to microcredit loans. Finally, we will argue that money should be understood as a way of recognizing interdependence in a community of debts and claims. We will conclude that money can be considered as a common good and reiterating the relevance of the Chicago Plan a complement to alternative financial practices in the social and solidarity economy rather than an opposition to them.

THE DIVERSITY OF ALTERNATIVE AND COMPLEMENTARY FINANCIAL PRACTICES AND LIMITS TO THEIR COMPARISON

During the first half of the 19th century, European and North American countries started experimenting with projects involving new financial mechanisms. Whereas most of such experiments were, in one way or another, based on debt, they were generally accepted as supporting local development and solidarity. It was not long before these experimentations were introduced in countries outside the Western Hemisphere.

Whereas the content of these financial projects and the structures with which they were established were (and remain) highly diverse, we have learned to understand them today as "solidarity-based microcredit" and "complementary, alternative and social currencies.[6]" In most cases, complementary currencies do not constitute a "currency" by legal definition. Very often, public authorities do not recognize local currencies as currencies, and citizens from any particular jurisdiction are allowed to refuse to use them. In addition, the value of the local currency depends in the last resort on its exchange rate with the national currency. In this chapter, we shall refer to these instruments as "currencies" given their function and their recognition as currencies by their users.[7] Hence, we concur with Patrick Viveret's notion of *monnaies citoyennes* (i.e. "citizens' currencies"), referring directly to the users rather than to the legal requirements associated with the acceptance of a "currency."

Apart from these two well-known financial mechanisms, we propose a third kind that is based on different forms of loan and savings associations. We refer to it as "rotating credit and savings associations (ROSCAs)".[8] Many of these rotating credit and savings associations developed and proliferated

long ago in an informal manner.[9] Today some governments recognize and regulate particular types of ROSCAs, such as India and South Africa, where rotating credit and savings associations similar to regular savings and credits associations are known more widely. However, Otto Hospes and Mark Prose (2004: 250–251) have noted that ROSCAs in postcolonial Sub-Saharan Africa have to a large extent remained informal without upsizing into larger national organizations. This third form of financial mechanism is also well known and widely used in China, where it came into existence after the fall of Maoist communism and has since remained widespread in the worldwide Chinese diaspora.[10]

Certain microcredit organizations are based on elements like rotating credit and savings associations; in other words, when a loan is granted to a microgroup and a member defaults on his or her share of the repayment, the other members are jointly responsible for reimbursing the lender. Constrained solidarity of this type is similar to certain components of rotating credit and savings associations. The analytical boundaries among these three groups of financial mechanisms are at best porous and at worst blurred. The success of the different schemes and projects in terms of expansion and durability has been highly variable, and we consider there is not yet sufficient evidence of a consistent approach in evaluating their overall societal benefit.

Whether in so-called developed, emerging, or developing countries, the diversity of forms and projects that these three broad financial mechanisms have taken on enable us to make comparisons, notwithstanding the limitations imposed by the heterogeneity of the comparable systems. For example, complementary currencies are rarely used in countries or regions with a very low per-capita income. They can be found sporadically, however, in Kenya,[11] in South Africa, and in many emerging countries in Latin America.[12] More than 40 per cent of complementary currencies, however, are in Europe. The sheer diversity of geographical and socioeconomic contexts would make any analyst skeptical as to broad conclusions on their developmental impact. Rotating credit and savings associations, on the other hand, are often used in places with high per-capita income, albeit still mainly by immigrants from developing countries, where they are fairly common.[13] Finally, microcredit is the best-known alternative financial mechanism in the world. The bulk of microcredit customers live in South Asia, whereas less than 2 per cent of them are found in Europe or North America (Gloukoviezov & Rebiere, 2013; Guérin, 2015). Despite the seemingly low figure of 2 per cent, it should be noted that microcredit, understood as solidarity-based credit arrangements made within small groups, and also mutual guarantees are almost nonexistent in developed countries. There have been a few attempts to transfer the Southern model to countries with higher per-capita income, but most have failed, group loans soon being transformed into smaller individual loans.

One analytical starting point that we observe is that in the functioning of these three types of financial instruments, the degree of formality

and informality of these practices is different.[14] The degree of informality depends in particular on the origin of the internal and external cash flows that supply and are supplied by these different instruments. These cash flows themselves vary according to the nature and intensity of their linkage to the market. Without sufficient trustworthy information, however, it is impossible to launch a historical, anthropological, or sociological comparative study to evaluate on any given site the impacts of these experiments. Currently, there are also no studies of this sort.

Our ambition of comparing these three types of organization is of another sort. Rather than directly confronting and comparing the different arrangements, we will try to assess the principles on which each is based and the logic informing its functioning. We will focus on understanding the role of debt in each case and in working out the way in which the relationship with debt affects the ability to deliver on the intended objectives of solidarity and comprehensive local development. By focusing on these respective capabilities, regardless of the size and duration of projects concerned, it is possible to analyze the potential dynamics through the debt/credit relationship that each of these three mechanisms presupposes, maintains, or constructs.

WHERE DO THE FUNDS FROM MICROCREDIT AND ROTATING CREDIT AND SAVINGS ASSOCIATIONS COME FROM, AND WHERE DO THEY GO?

Tontines—rotating credit and savings associations—are associations or clubs of savers whose members decide to regularly contribute a certain unused amount of their income to a common pool (or "kitty"). The amount raised amongst participants is allocated to each them in turn at successive meetings. When it is one's turn, one can spend it as one pleases, for consumption, or as working capital or investment capital. There are usually no (strict) guidelines on this.

Throughout the world, hundreds of thousands of tontines are based on this principle; their organization and details and objectives, however, vary considerably (Lelart, 1990; Servet, 1995). In general, each member of the group is a regular contributor whose intention is to save. As one member's contribution is another member's benefit, thanks to the rotation, each member will benefit from the shared savings in his or her turn. Members thus have to pay in to every round; they are indebted to one another on a voluntary basis. There is, however, no credit as this is understood in the banking system, where the volume of total funds available is larger than the sum of the members' individual contributions; here there can be no discrepancy. If the total sum is deposited in a bank, however, it can serve to leverage a larger bank loan. Although there are indeed a few examples of this kind of "bankerization,"[15] this practice remains rare.

This means that in general, tontines generally do not serve a credit-multiplying function. Even when they are linked to banks, they do not

function as direct credit multipliers. Rather, both the multiplier and solidarity potential depend on what different members do when they receive the benefit in their respective turns. Solidarity in this model does not lie in the joint production of certain goods and services or in economic activity per se but rather in the mutual and voluntary debt that each round sets up among members.[16] The pressure used by group members to enforce the mutual obligations of individual members is community based. Although entirely voluntary, the relationship between them is nevertheless or becomes contractual in nature—to use the conceptual framework developed by Ferdinand Tonnies (1887) and subsequently widely used, in particular by Max Weber (Bond, 2013).

Within the system of microcredit lending, there are certain structures that provide advances to some group participants. In this case, this advance serves as a loan from within the organization itself.[17] Generally, however, and unlike rotating credit and savings associations, the organization issuing the microcredit loans needs a supply of external funds. In short, a share or equity participation is often a prerequisite to funding microcredit loans. Each of the group members normally both lends and pays in the national currency. Depending on the model, they may or may not be required to show that they are able to generate a certain amount of savings before receiving the loan. An alternative way of organizing group loans is for the microcredit organization concerned to make an initial loan to a few selected members (for example, two) of a larger group. When these members are able to repay their loans, the next two within the group would become eligible to receive a loan, and so forth.

The structure of the lending organization within national or international financial systems can be such that it allows the microcredit client to benefit from a financing mechanism in which overall loans exceed the sum of the deposits supplying the organization. This is possible when microcredit organizations operate in a similar manner to banks. In some cases, there may even be a formal association between bodies of the two types. Like banks, the microcredit organization is then able to loan more than the amount of deposits. To receive resources for microcredit loans, banks often require microcredit organizations to secure part of the loans in a guarantee fund that is deposited in a financial institution (Fino, 2007; Servet, 2007b).

However, when the flow of funds is mainly located outside the community and when "advanced funding"[18] is used to reward major lenders, shareholders,[19] technical staff, legislative and juridical support, and foreign suppliers of support services, the direct multiplier effect of microcredit loans is logically reduced, nullified, or even negative (depending on the level of charges incurred within the loan specification). We therefore conclude that in cases of this sort, a debt relationship does not play a positive role but a negative one (Sinclair, 2012). It impoverishes the people who suffer directly and who, because foreign players remove the funds, do not benefit from a multiplier effect. For debt that is supposed to benefit the final recipients or clients often benefits external capital providers and has a very limited

positive impact on the local situation and may even generate a net negative local effect (Bateman, 2010, 2011; Dichter Harper, 2007; Fernando, 2006; Servet, 2006, 2010b).

This game is not only played on a macro- or mesoeconomic level. Bähre and Smets (2004) provide an example of how some members of financial self-organizations (the accumulating savings and credit associations, or ASCRA) in South Africa have compelled their members to pay their debts by (ab)using the societal element of shame for being indebted. Some of the descriptions in their work refer to the sometimes-violent attitude on a micro level. One notable example is the way in which members of one ASCRA seized the belongings of a woman who failed to repay her loan and sold them off very cheaply. The study that Erik Bähre (2002) made in Cape Town also shows that the tensions within financial self-organizations can even give rise to accusations of witchcraft.[20]

Bähre has also denounced the shortsighted optimism of some microcredit proponents. Again writing on South Africa, he described a situation in which a woman who malnourished herself and often went to bed hungry in order to be able to repay her loan was regarded as edifying. The fact that this may have been out of fear was not considered (Bähre & Smets, 2004: 231–232). In examples such as these, we clearly see the other side of microcredit: rather than serving solidarity, it fuels microdebt and oppresses the indebted (Dichter & Harper, 2007).

How then should we interpret situations that seem to be deviations from the initial intentions of microcredit organizations? Whereas tontines typically rely on self-organized groups,[21] microcredit is provided by institutions that are much more formal, depend on external financing, and are driven by the quest for profit (Servet, 2012c). The distance from the initial social purpose is mostly the result of the pressure of financial obligations that arise at many different levels in the vertical structure of microcredit lending. It is not surprising that some of these forms of debt can become oppressive and confiscatory (Servet, 2015).

THE CREATION OR CURRENCY CONVERSION OF LOCAL CURRENCIES

One may wonder how complementary currency arrangements differ from these other two financial mechanisms. Like tontines, complementary currencies are based on groups of which the organization allows for relationships of credit and debit among their members. Furthermore, they often use some type of payment symbol, such as a coupon or bill, that guides the exchange. This again involves varying degrees of formalization. If the group has a certain degree of monetary autonomy, it can create, *ex nihilo*, a complementary currency that relies solely on the initial advance granted to its members. It should be noted, however, that this type of potential monetary

autonomy is in reality often restricted by governmental regulations and that new forms of local currencies supported by financial institutions and local municipalities do not operate in the same way.

The first generation of new local currencies that arose in the 1980s and 1990s did still operate within a context of monetary autonomy, for example local exchange and trading systems such as the *Tauchring* and *Banche del Tempo*. When there is monetary autonomy, the guarantee is not external; it is not provided outside the group. Rather, it consists of the volume of business that the new local currency generates. In the new generation of local currencies that became dominant in the 2000s, however, the security is provided by a simple acquisition of complementary currency against central bank money.[22] In this case, there is indeed a mere substitution of one currency for another, without the creation of additional purchasing power based on reciprocal debt among its member-users.

When local nonprofit organizations or public institutions acquire complementary currencies with a view to redistributing them, this preconversion—that became the norm in the 2000s—does not necessarily exclude low-income groups and people who cannot afford to buy the local currency. If, for example, local sport or cultural services can be paid in a local currency, the use of these currencies can imaginably bring about a redistribution of purchasing power—provided that, of course, local governments prioritize the use of their stock of complementary currency to support people in financially precarious situations. A practice of this sort could further encourage local inhabitants to use public services.

In the matter of debt relationships in alternative financial mechanisms, it is important to ask how banks use the deposits they receive to enable them to create the complementary currency.[23] If regulations allowed for this, banks could transform specific deposits into much larger financial instruments in order to increase their ability to extend credit. Indeed, this practice would be in sharp contrast to the constraints that, among others, the authors of the Chicago Plan wished to impose on the banking system.

How then can complementary currencies be used to achieve solidarity within the economy? If the users of the currency benefit from a reduction in prices when they use the complementary currency or when this currency can be acquired at a discounted rate to encourage its use, a demand dynamic is created in which an increased purchasing power benefits the community of member-users. If a municipality distributes income assistance in the local currency, with the latter then being financed by taxes, the currency may very well have a redistributive impact. Although we cannot speak of money creation, we can see the potential social benefits of such a conversion.

Reaching such objectives by using local currencies, however, can only succeed if the currency is operational in a circular system. Complementary currency systems are called "demurrage" systems when owners of local currencies have to pay a certain surcharge on the value of the money (often by having it stamped) if they want to use it after a certain timeframe has

passed. Again, this practice does not mean money is created. Rather, this type of group tax is intended to maintain the collective use of the currency, either by maintaining the distribution of the currency or by covering its operating costs. One could argue that the entire group together fuels a part of the value of the money. This practice is thus similar to pooling.

Conversely, when the exchange in local currency is not materialized by a payment symbol but by a recognition of debt of the buyer vis-à-vis the provider of the good or service, the use of local currency can create reciprocal debts that are formed at the time of exchange. Such recognition is often still formalized by using some sort of check, increasingly in the form of a phone, or electronic message that has the ability to record debit and credit. This practice, contrary to the former type of local currency, allows for money creation. Debts and claims of each of the members using local currencies are *de facto* validated at the group level. We can argue that we find ourselves in a funding process that is activated by debt that is individual in nature but collectively recognized in order to allow the monetary process to continue. In this situation, we consider the local currency a symbol of abundance (Servet, 1999: 197, 289–292).

We observe that debt is located at two levels. On the one hand, if the group allows for a certain amount of spending for each of its members, regardless of any initial payment, then there is a starting debt. On the other hand, there is also debt in interpersonal relations that constitute each of the transactions between members. Complementary currencies that we call "cost bearing" (those we previously described and whose purchasing power depreciates by, for example, 2 per cent per quarter) encourage the acceleration of money circulation by inducing local dynamics of income and expenditure. The level of currency depreciation is usually decided in service of the local community. If trade is boosted by the risk of a loss of the value of the currency, the velocity of its circulation is increased. This in itself proportionally increases the money supply in the community.

This is not without saying that the use of local currencies is without risk. First, it is worth noting that money creation, or increasing money supply in a community that is experiencing a shortage of human and material resources, could provoke an increase in prices. This would occur if the outstanding claims of those that are in possession of the currency—this can be considered as debt of the community towards the claimants—would be exercised vis-à-vis a volume of goods and services that are inadequate to meet the demand of all currency holders. This again can be interpreted as a transfer of value to the benefit of the collective and at the expense of the private holder of the currency.

Whereas this risk is real, the issuance of local currencies (which are rarely currencies but most often some type of vouchers or prepayments) most often occurs in a time when resources are underutilized. This was particularly so within the context of the economic and financial crisis. For example, Spain

and Greece, two of the harder-hit European countries, have made use of the system of complementary currencies. Greece still has around 30 such systems in operation today. A study in Conjunto Palmeira, a suburb of Fortalez, the capital of Ceara state in north-eastern Brazil, has demonstrated that the core problem of the local community was not the lack of money but rather that money available escaped local circulation (Meyer, 2012: 9, 73). In the South American region, the bank Banco Palmas and has been running a local currency *Palmas* since its foundation in January 1998. In response to money escaping local circulation, an indigenization policy of the local currency was put into place. Besides not allowing consumers to convert the money to national currency, Banco Palmas also created two complementary initiatives. The first involved a local solidarity market where consumers could pay with the complementary currency; the second involved a shop where clients could only pay with local currencies (Meyer, 2012: 7, 53–54). One can conclude that money supply is indeed an important issue but that a lack of utilizing local resources and monetary emigration is often at the heart of the decision to implement local currencies.

How can we now evaluate the use of complementary currencies? In our opinion, it is more the local dynamics surrounding the use of the local currency than the actual use itself, which is critical to its success. It is less useful to measure the impact of local currencies only by the volume of their transactions. In Europe, for example, the reason for the development of complementary currencies is often different from the reasons given by policy makers. Rather than the mere economic need of its users, complementary currencies are often implemented by consumers that try to achieve more awareness about the necessity of a better-circulating economy. In times of crisis,[24] "many users of complementary currencies aim at challenging certain dominant norms of economics by seeking another system of values."[25]

In Europe, the dominant form of new local currencies can be found much more in the field of consumption than production. These types of local currency projects attempt to integrate local businesses.

Indeed, new citizen currencies appear as the most suited method to adherents who believe in a circular economy and wish to act as aware and proactive consumption actors. In this case, the impact is indeed more on the level of consumer awareness, because the purchase of goods and services with local currencies proves quantitatively insignificant compared to overall consumption. This also explains why many charters of current local currencies give a relatively heavy weight to organic and responsible businesses.

One interesting observation about these consumer-driven systems is that they have an easier time finding suppliers of goods and services than consumers. This translates into a very high share of adhering enterprises compared to the total number of consumers.

We can conclude that currently local currencies are not deeply influential financial mechanisms that transform consumption patterns by means of

transaction volumes. Rather, they intervene more as a tool to raise awareness in a context of sustainable development with shorter circuits, supported by a local dynamic that is built on consumer responsibility. To this extent, citizens' local currencies do already encourage local consumption that respects environmental and ethical norms. They do not do so through the use of these currencies as a means of payment but by their influence in raising consumer awareness. This impact ultimately goes beyond mere transaction volumes.

A POSSIBLE INTERSECTION BETWEEN MICROCREDIT AND LOCAL CURRENCIES

We have recently observed the inception of a number of projects that target a new intersection between microcredit and complementary currencies.[26] The most advanced example is the Palmas bank in Brazil, which was founded in 1998 and born out of an association created 20 years earlier by the inhabitants of Conjunto Palmeiras de Fortaleza. This project is recognized and supported by the National Secretary of Solidarity Economy. Since 2007, similar projects with a wide variety of modalities were developed in more than 75 communities across the country. Since 2002 and 2005, respectively, a Dutch organization called STRO (Social Trade Organization) and the National Bank of Brazil have deposited funds in the microfinance institution. To foster a dynamic exchange within the locality, borrowers are also being allowed to reimburse the whole or part of the loans received in national currency in *Palmas*.

It should be noted that such a project, which is more about countering the low circulation of money rather than the overall low amount of money within a community, has overcome the traditional opposition between productive and consumer credit (Meyer, 2012: 6, 54, 60, 61, 73, 83). It has done so by breaking with the conception that microcredit is by definition a policy on the supply side. Indeed, a project like Las Palmas is more one trying to influence demand-side politics. However, if those that receive *Palmas* would immediately convert them into *Reals*, the project would fail at boosting local trade and generating multiplier effects. This indeed remains the main threat to achieving the objectives of intersectional projects between microcredit and complementary currencies (Meyer, 2012: 58, 61, 72, 75, 79, 81, 92). It is crucial to understand that in this case, poverty did not arise as a result of a lack of income and resources but rather as a result of local consumers taking money away from the locality by purchasing either outside the community or with large supermarket chains. Both had the same effect. Again, we notice that the main problem is not always money supply but the escape of money from the local community.

In the North-East of Nicaragua in Ouilali, the microcredit cooperative *20 De Abril* set up a complementary currency project in 2012. This project

was first initiated by CASTRO (Social Trade Organization Central America), which is part of the same organization that implemented the project in Brazil.[27] Like most experiments of this nature, the first two years of experience have demonstrated certain limitations related to the diffusion of the local currency. First, the project ensured that users of the complementary currency can only be those that are associated with the microcredit and savings institution. Second, the local currency can only be used in the department store next to the head office of the cooperative. Members can receive the currency against the national currency (*Cordobas*) and receive a discount when they use it for payments in cash. The microcredit loans, however, are not yet made in the local currency, limiting the intersection of microcredit and local currencies. Despite the efforts of the institution to spread the currency at its launch, after six months it remained relatively unknown amongst the members of the cooperative. As with the Brazilian experience with Las Palmas, we see that the main users of the currency are the employees of the cooperative.

Without government support and strong political will, the potential of the intersection of microcredit and local complementary currencies is set to remain locked, with even success at the project level appearing unlikely. Rather, the intersection resembles the dominant modes of microfinance growth, mainly as a result of its links with international finance. Effectively, it resembles the hegemony of microcredit in debt relationships worldwide (Bateman, 2010).

MONEY AS THE RECOGNITION OF INTERDEPENDENCE IN A COMMUNITY OF DEBTS AND CLAIMS

How can we understand the meaning of money within these three different alternative financial mechanisms? As far as their technical function is concerned, money is a priori an identical tool. As a community instrument, however, "money" is different for the users of complementary currencies. This is simply because the boundaries of the community within which the currency can operate are by definition limited to a community of users (Mezzadra & Nielson, 2012). This is often even a condition imposed by national authorities. ROSCAs and microcredit, from another side, most often use national currency in their operation. As mentioned, to the extent that the globalization of money has lead to a certain dispossession and exploitation via debt, local currencies could thus be viewed as a form of resistance against these excesses of financial globalization.

Money is generally defined by its functions in payments and as a unit of account that permits an exchange of valued goods or services. Its often-proclaimed third function—storing value—however, is not strictly a monetary function. Indeed, the storing of value still needs to pass through a transaction with a joint unit of account to actually deliver monetary value.

One could even say that for this third function to manifest, there is a shift in operation. It is the currency that allows the transmission of ownership to evaluate the value of this transaction and to negotiate what appears as recognition of debt amongst buyers and sellers.

If we now consider the debt relationship as the dominant characteristic of monetary relationships, it is easy to understand the fundamentally different uses of money. From an essentialist approach (Servet, 2012a), money can be understood not as a relationship of opposing interests but rather as a recognition of interdependence and even mutual need (Lasida, 2011). This approach is similar to that which can be observed in certain modes of fair trade. Theoretically, if everyone would mutually recognize the needs and interests of the Other, a monetary relationship can even be considered a common good.

This would also make money an essential expression of social integrity (Aglietta & Orléan, 1998; Théret, 2006). Sharing and reciprocity (Servet, 2007a, 2013, 2014) create interdependencies that we can understand as forms of solidarity, only out of the relationship between citizens that is created through monetary function. As long as the intensity of this logic of voluntary interdependence surpasses individual interests, ROSCAs, microcredit, and complementary currencies can indeed be authentic forms of solidarity. To understand this essentialist view on money, it may be better to emphasize credit rather than debt, as the latter has a connotation that nowadays implies domination and exploitation (Graeber, 2011).

We recognize that "money" as a societal link can be an ambivalent idea given its different uses. In a market-based society, humans tend to be individualist and are expected to operate and produce independently. In such an environment, money is mainly used as a means of transaction. Whereas within this context humans may think and appear to act independently, they are nonetheless and necessarily interdependent to construct the society they live in (even if they do not think so themselves). Money thus both separates and unites a society that contains simultaneously independent and interdependent members. As an institution, "money" is subject to this tension between independency and interdependence as a hegemonic force that oppresses "the Other." This conception subsequently leaves little space to propagate interdependence and solidarity over the dominating logic of private wealth.

For many monetary experts, local currencies, microcredit, and ROSCAs have, to various extents, some forms of solidarity embodied within their function. The intensity of the solidarity aspect (or, alternatively put, of protection against domination by debt) and its effectiveness remain, however, inadequately surveyed and therefore insufficiently understood. All three of these forms are built on a dynamic of debt and credit, either between those involved (ROSCAs and local currencies) or vis-à-vis the outside world (microfinance).

The instruments that we have introduced in this chapter appear in the globalized world of finance as no more than pockets of resistance against

the financial mutation that has stifled and continues to stifle productive capitalism (Servet, 2010a). In this predominant stream of international finance, the establishment of sovereign local groups that utilize local currencies and ROSCAs opposes the prevailing form of financialization.[28] The prevailing forms of microcredit that we observe today, however, are increasingly part of this system, including at the international level (Servet, 2012b).

This kind of "financialization" can be far reaching. For example, it has been estimated that institutions in Switzerland (which hold about one third of global expatriate income) manage either directly or indirectly (via Luxembourg) about a quarter of the investments covering profit-oriented microcredit worldwide (Dominicé, 2012). Such microdebts are then grouped together in financial vehicles by hundreds of institutions that are specialized in this activity and are often considered to be a form of "alternative investment". The alternative character here does not refer to any practice of solidarity but to the attempt to diversify the risk of investments within international finance, with other parts originating from apparently more "social investments", such as for example so-called green investments or securities of public debt (Audran & Berthouzoz, 2009). These types of more social investments then often reach about 5 to 8 per cent of total assets.

Within this context, international investment in microcredit grew strongly until the 2008 crisis. Even though the crisis slowed microcredit growth in countries that were previously considered the jewels of microcredit expansion (Bosnia, India, Nicaragua, and Morocco, among others), microcredit investments nevertheless could soon reach between US$10 to 20 billion through the exploitation of new investment opportunities. However, except for the existing handful of stock market–based microfinance institutions across the world, securities from microcredit loans ought not to enter speculative finance so as to avoid the participation of microcredit in what can be described as the "empire of liquidity" (Servet, 2012b).

A key feature of the development of the last decade has been the tendency to transform a growing number of commodities into liquid assets that provide the basis of speculation. This empire of liquidity has expanded to engulf almost the entire planet and has affected not only industrial but also agricultural production (Ducastel & Anseeuw, 2013). For microcredit, however, this entry into the "empire of liquidity" still appears to be exceptional, and the formats and specificities of the evolution that has been described as a "commercialization" of microcredit still remain unknown. Given that today, most ROSCAs are managed without the type of formalization that could allow for trading, they also do not contribute to the empire of liquidity.[29] Similarly, local complementary currencies, from the examples discussed, remain outside that empire.[30] Indeed, the interdependencies and debt relationships created by financial mechanisms, such as ROSCAs and local currencies, are radically different from those market mechanisms that are primarily based on the logic

of interest and speculation. The revolutionary aspect of the Chicago Plan was that it courageously attempted to oppose the latter but not necessarily the former.

MONEY AS A COMMON GOOD?

It is useful to utilize certain analytical frameworks from the environmental and ecological field of study on water, fisheries, and forestry resources to the study of money and currencies, mainly by applying the logic of acquisition and accumulation to the world of private goods and services. One proponent of this approach has been Camille Meyer (2012). In his study of the community development bank Banco Palmas in Brazil, he has applied Elinor Ostrom's concept of "common goods" (Ostrom, 2002) to discuss the bank's attempts to find the productive intersection of microcredit and local currencies. The analytical engagement of the two fields of study is legitimized further if we take into account that many new forms of local currencies have been developed by associations that explicitly adhere to a global ecological perspective (Fare, 2012).

As a starting point, it is important to understand the difference between public and common goods. In itself, a freely available public good does not diminish the quantity or quality because of its perfect reproducibility (such as downstream water use in mills) or because its use by one part of society does not exclude access to other parts (such as peace[31]). A common good, however, is different given that the consumption of a common good by one actor has the possibility of excluding others, whether immediately or in the future. Common goods are also characterized by the fact that any solution to restrict certain usage or access is often difficult or costly. This rivalry, by virtue of the scarcity of the resource and the private use by some at the expense of others, can lead to resource depletion or deterioration (Ostrom, 2005: 23–27). To avert such pathways and to allow an inclusive resource policy, the ecological discipline supports the design of regulations to manage resources and to define the particular yet collective rights of everyone to share in the distribution of their use.

This short description already touches some of the current problems in financial markets. According to the analysis of Camille Meyer (2012: 13), credit and currencies can be treated as if they were common natural resources. The aspects of solidarity within regulatory intervention are best understood through reciprocity and sharing at a local level and are central to achieving the sustainable management of common goods. Some forms of microcredit, complementary currencies, and ROSCAs appear to push solidarity more than others because of certain modalities that emphasize the practice of sharing. It is, first and foremost, the identity of the group that embodies the sharing element in its name and, subsequently, in the development of a specific project. For a growing number of local currencies, it is the "pledge"

or the "lest" (i.e. that their value is covered in a deposit) that is necessary for their issuance; such a deposit constitutes a collective treasure of the members of the organization issuing the currency.[32]

In the case of local currencies, such existential questions are much more vivid and controversial in France or Italy than in Germany, Austria, the Netherlands, Luxembourg, or the UK, where the pragmatic demand of localized development generally seems to prevail. It should also be noted that the use of a local currency that is driven by a particular demand of goods and services and the circulation in which the currency operates produce a dynamic that induces the currency's availability to others. This is why proponents of local currencies (for example in the case of *Sol Violette* in Toulouse) strongly support the idea of introducing a chip in the currencies to be able to physically locate them to preserve the sharing element. With a demand that is solvent at the local level, it is possible to induce the supply of goods and services and therefore to enhance income distribution through collective action.

CONCLUSION

The core of the Chicago Plan is the proposal to fully pledge banking money by means of a deposit and thus to prohibit money creation *ex nihilo* by private institutions. It is clear that a general description of this core proposition may pose some problems to alternative financial mechanisms that encourage solidarity and sharing. The Chicago Plan has recently been challenged by, amongst others, Bernard Lietaer, one of the principal experts in local currencies (Lietaer, 2012: 183–188). His arguments echo those that were first put forward in the 1930s when proposing an alternative to separating the activities of investment banks and commercial banks. At the time, these counterproposals resulted in in the adoption of the Glass-Steagall Act of 1933 in the United States and in similar acts across most Western countries. This separation prevailed until 1999, when President Clinton signed the Gramm-Leach-Bliley Act that gave commercial banks the opportunity to participate in speculative financial transaction. This then became a common practice across the world from the 2000s on.

Bernard Lietaer (2012) cites five reasons that lead him to reject the Chicago Plan: (1) the plan does not take into account the usefulness of complementary currencies to exit what he refers to as "monetary monoculture"; (2) the plan would not eliminate banking and sovereign debt crises; (3) the control of money creation by the State would increase the risk of inflation or even hyperinflation; (4) the banking lobby would oppose this project and therefore its feasibility can be questioned ex ante; and (5) because the plan would involve measures taken on a very large scale, systemic risks would be considerable. None of these reasons, in our opinion, appear compelling enough to reject the Chicago Plan outright. The plan continues to have the

potential to introduce a new collective rapport toward debt and to give a common-good dimension to the functioning and use of money.

The fourth and fifth reasons could apply to all proposals for reform of any nature, including the counterproposal made by Bernard Lietaer for a generalization of local currencies. Indeed, financial interests would be touched by any proposal that would limit the role of banks. As for systemic risks, it would be equally possible to argue that a proliferation of local and regional payment systems would make it difficult for regulatory institutions to exert control. Noncollateralized local currencies could thus become victims of their own success, especially if they became an instrument of credit. Would it not be a Hayekian view of currencies when imagining that market competition between currencies could allow a spontaneous equilibrium of money with the good money that drives out the bad money? This could result in an increase in the velocity of money circulation allowed by local currencies and thus to a potential excess money supply relative to the quantity of goods available.

Concerning the fear of rising prices, it should first be noted that, when managed carefully, the depreciation of the purchasing power of a certain currency is a method to reduce debt. For example, it has been estimated that an increase of prices by 5 per cent annually would allow halving the value of debt expressed in constant purchasing power in approximately 13 years. Opposing a slight price increase that could revitalize economies (as is shown today in a Chinese and Indian context) could therefore correspond to supporting favorable rents that investors are able to garnish from the current financial system.

However, if we consider a potential situation in which bank money is covered by deposits in central banks, where the State is again responsible for money creation and where therefore the State is able to collectively manage credit, one can envision a return to a collective understanding of money that favors a circular economy over private wealth accumulation. We consider that such a return to a central public control of money is perfectly compatible with the issuing of local currencies and with the recognition of local exchange systems and certain banks that have the autonomy to manage local exchange systems of interenterprise loans. We therefore conclude that a Chicago Plan type of proposal can be complementary to the existence and growth of alternative financial instruments that target a social and solidarity-based economy.

Whereas in the last quarter of a century microcredit has constituted one of the main instruments of local development promoted by both public authorities and private foundations—often with extensive media coverage—its crises have demonstrated the limits of the system that has both caused indebtedness of some of its clients as well as the saturation of their debt (Guérin et al., 2015). Along with autonomous systems of localized payment or credit, pledged complementary currencies can be an alternative to this crisis, thereby implementing the Chicago Plan at a decentralized level. This

would ultimately allow for a dynamic of local exchange by the indigenization of monetary circulation.

NOTES

1. The authors would like to thank Paroma Ghose for her careful reading and valuable comments on the editing of this chapter.
2. The Benes-Kumhof proposal relied on a number of historical and anthropological writings (*Einzig, 1966*; *Graeber, 2011*; *Laum, 1924*; *Peruzzi, 1985*; Quiggin, 1949; *Zarlenga, 2002*; *Graeber, 2011*). These authors have rarely been cited by the Bretton Woods Institutions since their birth in 1944.
3. The Chicago Plan was proposed notably by Frank H. Knight, Lloyd W. Mints, Henry Shultz, Garfield V. Cox, Albert G. Hart, and Henry C. Simons and supported by Irving Fisher. Other recent proposals have been made to restore the control of money supply with the State (*Jackson et al., 2013*; Lietaer, 2012).
4. This relationship between State and private banks is as complex as it is old. The Bank of England originated in 1694 from a number of loans that bankers provided to King William III in the context of the war against France. This context made it seem allowable to convert sovereign debt into public money and to socialize debt by creating money. Confidence in this paper money became essential to its circulation, so that there was no rush to request the conversion of printed money into precious metal.
5. This concept is used in different contexts and often found in the constitution of organizations whose operations are considered to be "social and solidarity based". It is useful to note that whereas the European definition of the solidarity-based economy usually excludes rotating savings and credit associations, as they are informal in nature, the Latin American conceptualization allows for their inclusion. For more on the practical implications of this definitional debate, see *Hillenkamp* (*2009*) and *Hillenkamp and Laville* (*2013*).
6. For an elaboration on these different concepts, see the writings by Jérôme Blanc.
7. Following an amendment accepted by the French government and currently being discussed by Parliament (June 2014), the new law on the social and solidarity-based economy adopted the recognition of complementary currencies as currencies. This does not accept the complementary currency as legal tender but would allow municipalities to use the currencies for the payments of, for example, cultural services and sports.
8. Rotating savings and credit associations (in French: "tontines"), as understood in this chapter, are not to be confused with organizations with the same name linked to the financial sector. The first form of the savings and credit association (which has existed in France since the 18th century) consisted of the deposit of money in a savings group, with interest being allocated to the last surviving member. It functioned as a sort of retirement pension. An example in America is the Tontine Coffee House, located near the entrance of the Stock Exchange on Wall Street in New York, built in honor of the first New York Stock Exchange (savings and credit associations having operated in the United States since the 19th century and having been used by powerful provident companies).
9. In the late 18th century, Caribbean slaves were engaged in forming small savings associations whose names (esusu) are identical to those found today in Africa in the Gulf of Benin.

10. For a description of Chinese rotating savings and credit associations, see Pairault (1990a, 1990b).
11. As in many parts of Sub-Saharan Africa, in Kenya complementary currencies are generally not recognized or even suppressed. One example is the arrest of five promoters of Bangla Pesa two weeks after the local currency entered circulation (*Benyawa, 2013*). Whereas this currency built on the earlier project Eco-Pesa, whose coupons entered circulation in 2010 in Kongowea and were aimed at environmental and local trade objectives, the Bangla Pesa project was accused of producing false money.
12. In 2003, the Brazilian Central Bank also sued the Banco Palmas for circulating false money. After losing their case when the local currency was recognized as legal, the Central Bank developed a strategic plan to study and accompany local currencies in 2007. Later in 2009, they even developed a technical note with the National Secretary of Solidarity Economy on the social usefulness of local currencies (Meyer, 2011: 32–33)
13. According to Demirguc-Kunt (2012: 10): "Community-based savings methods such as rotating savings and credit associations (ROSCAs) are used by close to 100 million adults Sub-Saharan Africa. Across the region, 19 per cent of adults (and 48 per cent of savers) report having saved using a savings club or person outside the family. In Western Africa 29 per cent of adults (and 59 per cent of savers) do so."
14. On the notion of informality, please see the text by the inventor of the term Keith Hart in the Palgrave Dictionary (1987).
15. One example can be found in the North-West of Cameroun with the members of the ROSCA *njangis* and the *Mitayen Co-operative Credit Union* and the *Fundon Co-operative Union* (Ojong, 2013: 213–214).
16. In Egypt, one who initiates a ROSCA or *gamaeya* often does so because he is in need of financial support. He thus uses the solidarity of relatives, neighbors, colleagues, or friends. The solidarity element is thus a core part of the birth of a *gamaeya*.
17. Note that some microcredit institutions are testing the future ability of borrowers to repay a loan by instigating a preliminary period of self-managed savings by the group. This is the case in Indian self-help groups. In some other microcredit institutions, the lenders block a certain part of the loan that at least partly secures repayment.
18. We use here the term "advanced funding" because according to the statutes and regulations of different organizations, this can be either in the form of a loan or an equity share that increases the lending capacity of the institution.
19. This can be in the form of interest or dividends paid to shareholders or a capitalization of gains made by the institution (*Servet, 2012c*). It increases the value of the shares of the company, which can then benefit the capital provider if he sells shares as shown by the examples of *Compartamos* in Mexico and *SKS* in Andhra Pradesh (India). *Bateman* (*2010*: 148) indicates that 82 per cent of the shares of *Compartamos* were acquired by non-Mexicans.
20. For other examples of pressure by microfinance institutions on indebted customers, see *James* (*2013*) and *Bateman* (*2012*).
21. When a ROSCA is called "commercial" (for a description of this term, see *Lelart, 1990* and Servet, 1995), in which case there is an organizer, or when they are financial organizations like in India or South Africa, the ROSCA cannot be described as self-organized. For recent analysis of the commercial ROSCA *cheetu* within the community of expatriate Sri Lankans at the Porte de la Chapelle (Paris), see *Gazagne* (*2011*).

22. This is the case for most local currencies supported by municipal authorities in France. See, for example, Blanc (2013) and White (2012).
23. It should be noted that in Brazil the term "ballast" is used to describe complementary currencies (Meyer 2011: 65).
24. *Saiag* (*2011*) observed that after the financial and monetary crisis in Argentina, during which various types of local currencies were used in response to a lack of monetary resources, these alternative financial mechanisms did not disappear once the crisis loomed.
25. To quote the very apt title given by *Banque et Stratégie* to an interview with J.-M. Servet, 09 April 2013 n 303.
26. It must be noted that it still mainly affects individual rather than solidarity-based group loans.
27. In fact, the project in Nicaragua represents a transfer of the model of already completed projects in other Latin American countries since 2002: Brazil (*Red Compras* in 2005), Honduras and El Salvador (*Suchitoto* in 2007 and *Punto Transacciones* in 2009), Costa Rica (*Coopesilencio*, *Coopebrisas*, and *Coopevictoria* in 2007), Ecuador (*Cooperativa Sigchos* and *Cooperativa Coopera* in 2010), and Uruguay (*C3-Uruguay* in 2010). See *Brenes* (*2011*: 32–38).
28. Financialization as understood by *Gloukoviezoff* (*2010*) and Servet (2010a).
29. ROSCAs can have a membership of as little as two or three persons. For example, in Tanzania, the *mchezo* and *upatu* are such ROSCAs with few members (*Zoeteliief, 2004*: 62). Financial self-organizations such as *umgalelo, umasiphekisane*, and *umasingcwabane* in Cape Town in South Africa between 1995 and 1998 had varying memberships from three persons to a maximum of a few hundred (*Bähre* & *Smets, 2004*: 221).
30. Some other types of alternative currencies may contribute to the empire of liquidity. For example, the "miles" programs of large air-traffic companies demonstrate a link with large companies. Also, the speculative markets of bitcoins provide an example of opportunistic use of alternative currencies. See *Dupré and colleagues* (*2014*).
31. Unlike knowledge in the exact sciences, which may be subject to patents, knowledge in the humanities and social sciences can also generally be considered as public goods (provided that the reproduction of such knowledge is qualified by proper referencing).
32. If this type of security may appear as a hindrance to the development process of local currencies, we should recall the objective of countering widespread liquidity mentioned at the beginning of this chapter. One cannot expect to counter this excess of neoliberalism while at the same time arguing for an unrestricted development of local currencies.

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