

Measuring Wealth: the Monetary Blind Spot

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Abstract: *Microfinance is increasingly seen as a major development tool. Nevertheless, providing financial services to the poor generates some unresolved ethical questions, and its effectiveness on actual poverty reduction has insufficiently been evaluated. We define poverty as deficiency in financial, human and social capital; and assess whether microfinance tangibly reduces poverty in this broad sense. Based on an "Intentional Economics" framework we conclude that we need to revisit the institution of money itself to generate the additional tools needed to effectively increase wealth among the poor. As examples, we propose three new tools that become available through such an approach of rethinking money. They are respectively: a new micro-savings product empowering the poor to build up financial capital; a learning currency expanding human capital in the form of retained learning; and an interest-free medium of exchange developing social capital.*

Defining the Question

Our Definition of Wealth

Our definition of wealth integrates stocks of three different forms of capital, namely: financial capital, human capital and social capital. Financial capital is the net amount of financial assets a person possesses. It is measured in conventional monetary terms and thus the easiest to gauge precisely.¹ Human capital can be defined as the stock of skills accumulated, allowing someone to receive a flow of income.² It is obviously a lot more difficult to quantify human capital than financial capital, but various proxies are used. For instance, a typical proxy for human capital is the amount of retained learning accumulated, the measure of which is typically further simplified to the level of education attained. Finally, social capital is classically defined as "the collective value of all 'social networks' and the inclinations that arise from participants in these networks to do things for each other."³

¹ The World Institute for Development Economics Research (WIDER) in Helsinki released in December 2006 the first global survey on personal financial wealth (defined as the net value at purchasing power parity of the sum of financial assets, real estate, consumer durables and livestock). Financial wealth is shared much less equitably than income: more than half is held by just 2% of the world's adults. Many people in the bottom half (including in the developed world) own next-to-nothing, or have a collective net financial worth below zero. It would be worthwhile to investigate how many microfinance borrowers are or remain stuck in this category.

² Becker, Garry (1964), *Human Capital*, New York, Colombia University Press.

³ Putnam, Robert (2001), "Social capital measurement and consequences" *ISUMA*, vol. 2, n. 1, Spring 2001: http://isuma.net/v02n01/putnam/putnam_e.shtml

The common denominator among these three forms of capital is the capacity to perform rewarding exchanges with other human beings. Indeed, financial capital provides the capacity to commercially purchase goods and services. Human capital affects the scale of income flow one can generate for one's own time and services. Finally, social capital influences the quality and quantity of non-commercial exchanges that one can engage in.

An implication of the above is that we need to take into account all three forms of capital to evaluate whether someone's wealth has increased or not. For instance, is someone's wealth really growing when he or she increase their financial capital at the cost of a significant drop in social capital?

Revisiting the Monetary Institutional Framework

The most crucial institutional framework in economics is the institution of money itself. Two implicit hypotheses that typically remain unquestioned are pertinent:

- money is "value neutral", i.e. it is assumed to be a passive medium of exchange which affects neither the kind of exchanges performed, nor the relationships among its users;
- conventional money should have a monopoly as a means of payment.

These hidden assumptions underlie the entire field of economics, but both turn out to be invalid. Indeed, we are all familiar with at least some media of payment other than conventional national money, such as frequent flyer miles. They started as a simple marketing gimmick but have gradually evolved into loyalty currencies issued by airline alliances.⁴ In addition to these commercial applications, there are also over 5,000 social-purpose complementary currencies systems operational around the world.⁵ More important still, these interest-free social purpose currencies have proven that the type of medium used to make exchanges deeply affects both the type of transactions that are being performed, and the relationships among the people involved.⁶

The balance of this article explores what new tools become available when we release the two hidden assumptions that prevail about the institution of money in order to reach our intention, i.e. increasing the wealth of the poor. We provide one example for each of the three types of capital, specifically: a new microsavings tool to build financial capital fully backed by the natural growth of forests; a currency to expand retained learning as human capital; and a low-cost medium of exchange that encourages the creation of social capital.

⁴ For instance, two thirds of all British Airline Miles are cashed in for something else than airline tickets. Sainsbury, the largest supermarket chain in the U.K. now accepts them in payment.

⁵ Lietaer Bernard *The Future of Money* (London: Random House, 1999) and *Of Human Wealth* (Boulder: Citerra Press, Spring 2007)

⁶ Jacob, J. & al "The Social and Cultural Capital of Community Currency" *International Journal for Community Currency Research* (2004) Vol 8. www.le.ac.uk/ulmc/ijccr/vol7-10/8toc.htm/ Gil Seyfang "Tackling Social Exclusion with Community Currencies: Learning from LETS to Time Banks" *International Journal for Community Currency Research* (2002) Vol 7 www.le.ac.uk/ulmc/ijccr/vol4-6/6toc.htm. See also historical precedents in: Lietaer, B. *Mysterium Geld* (Munich: Riemann Verlag, 1999)

Limitations on the length of this paper make possible only a synthesis of the key features of these innovations. For more detailed descriptions, please refer to the papers referenced in the corresponding footnotes.

Building Financial Capital with an Inflation-proof Microsavings Tool

While there are plenty of micro-credit products on offer, there are remarkably few micro-savings tools. One solution is a “Natural Savings” currency that would enable the poor to accumulate financial capital, protect forests, and make microfinance institutions themselves become more financially sustainable. Natural Savings is a financial product fully backed by naturally growing commodities like tree plantations.⁷

Let’s assume that a tree plantation is harvestable after 20 years. A Natural Savings company would own this tree crop and issue a fixed number of shares that could not be increased without proportionally increasing the size of the plantation. Let’s call each of those shares a “tree currency.” Part or all of labor wages for this plantation could be paid in this tree currency either in the form of an imitation-proof paper currency or transferred electronically into workers’ savings accounts. After 20 years the Natural Savings company would harvest and sell the timber and the tree currency would be redeemed for the resulting revenue. Tree currency acts therefore as an inflation-proof bond. In the intervening time it can also be used as a local medium of exchange if other people in the area accept it.

Building Human Capital with a Learning Currency

Substantial research accomplished during the 1980s⁸ has proven that the best way to learn something is to teach it. Indeed the retained learning rate averages 90% when the material is being taught to someone else, but drops to only 5% when delivered through lecturing, and to 10% through reading. Furthermore, experiments with a complementary currency called Time Dollars whose unit of account is one hour of service, has proven successful at fostering mentorships among students in schools, by having a younger student pay with this currency an older one of his or her own choice. Both participants benefit: the younger one by being tutored while the older one both learns by teaching and becomes more confident in his or her abilities. Net result: grades for both significantly improve and high school dropout rates plummet.⁹ On the basis of these two empiric findings we propose to systematize the creation of “chains of learning by teaching” among people of different ages or skills through the use of a specialized learning currency.¹⁰

⁷ See technical details and evidence for these claims in: Hudon, Marek & Lietaer, Bernard (2006) “Natural Savings”: A New Microsavings Product for Inflationary Environments How to Save Forests with Savings for and by the Poor?” *Savings & Development (Forthcoming)*

⁸ See in particular the National Training Laboratories in Bethel, Maine; and references to the “learning pyramid” in <http://www.cofc.edu/bellsandwhistles/research/retentionmodel.html> and <http://www.know.org/>

⁹ E. Cahn, *No More Throw-Away People* (Essential Books, 2000).

¹⁰ This design was first introduced at the Saber Global Conference, Brasilia, Brazil, in December 2004 and is documented in more detail in B. Lietaer, “The Saber: An Education Currency for Brazil” *International Journal for community Currency Research* 2006 (<http://www.le.ac.uk/ulmc/ijccr>)

The process starts by giving for free the learning currency to beginners (e.g. in literacy programs) at the condition that they use it to pay a mentor of their choice to teach them. That mentor in turn chooses someone who is more advanced in whatever field that he or she wants to learn. This way, the complementary currency could “trickle up”; for example, to a university student who can use it to pay all or part of his or her tuition at a university. Finally, the university would exchange the learning currency for conventional national money through a special Education Fund at a pre-arranged exchange rate. Such a chain of learning through teaching generates a substantial “retained learning multiplier” over the usual university scholarships approach. Indeed, scholarships in conventional money are used only once, and only to the benefit of the final student. Furthermore, remember that retained learning is ten times higher when any material is being taught to someone else...

Microfinance institutions could be instrumental in introducing such a learning currency, for general or specific education purposes: for example to encourage entrepreneurs to help each other to improve their business skills; or to start financial literacy programs ranging from basic to sophisticated. The microfinance institution would then be influential in increasing in its environment not only financial capital but also human capital, which in turn would improve its own financial sustainability. The MFIs could even contribute to social capital, because a learning currency would facilitate interactions among people that otherwise may not know or help each other. In short, such an approach would ensure that MFIs contribute to all three forms of capital.

Building Social Capital through a Currency Compatible with Gift Exchanges

Community is a critical ingredient in social capital. Anthropological research¹¹ as well as simple etymology¹² point to the key role of exchanges, particularly reciprocity in gift exchanges in building and nurturing community. Theoretical¹³ and empirical evidence¹⁴ has demonstrated that exchanges facilitated with conventional money lack reciprocity, and are therefore incompatible with community building. In contrast, well-designed

¹¹ The anthropological literature on communities and on its relationship with reciprocity and “gift economies” is vast. Among the classics on the topic are Mauss, Marcel “Essai sur le Don: Forme et raison de l’échange dans les sociétés archaïques” *L’Année Sociologique* I (1923-24) pgs. 30-186; Barnett, H. G. “The nature of Potlatch” in *American Anthropologist* Volume 40, number 3 (July-September 1938): pg. 349-358; and Hyde, Lewis *The Gift: Imagination and the Erotic Life of Property*. (New York: Vintage Books 1983). See also Levi-Strauss, Claude. *The Elementary structures of Kinship* (Boston: Beacon Press, 1969). Hagstrom, Warren O. *The Scientific Community* New York: Basic Books, 1965 pg. 22. Bhikku, Thanissaro: “The Economy of Gifts: An American monk looks at the traditional Buddhist economy” *Tricycle: The Buddhist Review* (Winter 1996) pg. 56.

¹² The word “community” originates in Latin from *cum* (= together, among each other) and *munere* (= to give), hence its original meaning as “to give among each other”.

¹³ See B. Lietaer *Mysterium Geld* (Munich: Riemann Verlag, 2000)

¹⁴ Jacob, J. & al “The Social and Cultural Capital of Community Currency” *International Journal for Community Currency Research* (2004) Vol 8. www.le.ac.uk/ulmc/ijccr/vol7-10/8toc.htm; Pierret, Dorothée “Cercles d’échange: cercles vertueux de la solidarité: le cas de l’Allemagne”. www.le.ac.uk/ulmc/ijccr/vol1-3/3toc.htm;

social purpose currencies generate community because of their built-in reciprocity features. Many such systems have actually been successfully implemented for that very purpose.¹⁵

There is therefore a clear opportunity to make available in parallel with existing micro-credits an interest-free social purpose currency for local exchanges. Indeed, does it make sense to use expensive microfinance credits (with high interest rates) for anything but investments requiring “hard currency”, such as for buying imported equipment? In contrast, an interest-free social purpose currency could be used for local exchanges. Such an approach would provide a substantial leverage to the beneficial social effects of microfinance loans. MFIs who support such a low-cost medium of exchange would also resolve the ethical question about the exploitation for financial benefit of the social capital of the poor.

Conclusions

If the intention of microfinance is to provide the tools that enable the poor to build up wealth, the evidence so far is that the *net* wealth impact on the poor of microfinance practices within the current institutional framework is questionable. However, by following the framework of intentional economics, and specifically by releasing the constraints of the monopoly position implicitly assumed for the institution of conventional money, a valuable set of new tools become available. Three innovations were chosen to illustrate how they can contribute to all three components of wealth: financial, human and social. These new tools would form useful complements to the microfinance tools that deal only in conventional money, and particularly buttress the ethical validity of the field.

¹⁵ Such is the case of a number of Ithaca Hour and Time Bank systems created in the US (www.timebank.org). See also Laacher, Smain “Nouvelles Formes de Sociabilité ou les Limites d’une Utopie Politique” www.le.ac.uk/ulmc/ijccr/vol11-3/3toc.htm