Rebuilding Puerto Rico

A grass-roots economic development plan

National Commonwealth Group, 2018

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An island-wide, grass roots economic development plan for Puerto Rico, proposed by National Commonwealth Group, Inc., a Delaware non-profit organization.

Introduction

This document outlines a plan for the people of Puerto Rico to turn their island economy around. The plan does not require government funding, grants from NGOs or other institutions, or the largesse of financial elites. Rather, it relies on the commitment and creativity of Puerto Ricans themselves.

Here we lay out a framework whereby they can solve their pervasive food and energy shortages, rebuild their education and community infrastructure, and create a robust, shock-resistant economy. And all of this can be done with tools and resources already available.

Background

Hurricane Maria greatly exacerbated the desperate economic reality for the vast majority of Puerto Ricans. Struggling under austerity measures related to the island's $73 billion debt and subsequent 2017 bankruptcy filing,[1] they have watched as the U.S. federal government and their own government have been painfully slow in repairing and restoring basic infrastructure.

This reinforces claims that such a slow response is deliberate, enabling the "disaster capitalism" written about by Naomi Klein in her book The Shock Doctrine[2] and most recently in her article The Battle for Paradise.[3]

In that article she documents how the rich and powerful are trying to take over the energy, food and education systems of the island, along with land and other resources. And although the island has rich and extensive farmlands, most of it is dedicated to large agribusinesses with mono-crops. Around 80%-90% of the food needed by islanders has to be imported,[4] along with 100% of gas and oil. Only 2% of Puerto Rico's electricity comes from renewables.[5]

In addition, the hurricane damaged or destroyed many of the island's schools. And in spite of resources ready, willing and able to fix those schools and get the students back in, and teachers ready, willing and able to teach, privatization forces are pushing for turning many of them into charter schools.

In addition, Klein points out that cryptocurrency[6] advocates from around the world have converged on Puerto Rico with the vision of making the island "the epicenter of

this multitrillion-dollar market." And even though elites may want to turn Puerto Rico into the ultimate playground for newly minted cryptocurrency millionaires and billionaires, the people of the island can also turn this concept towards their benefit as well. Here's how.

The key to a solution

Cryptocurrencies are actually one of two forms of money that serve as alternatives to national currencies (fiat money).[7] Cryptocurrencies began with Bitcoin in 2009, but the other form, called complementary or community currencies,[8] is much broader[9] and much older, by millennia. Complementary currencies can be digital, but do not rely on digital technology and can therefore come in physical forms such as paper, metal, etc.

Cryptocurrencies are normally the plaything of the financial elite. In contrast, complementary currencies are "the people's currencies." If local laws allow for one, they generally allow for the other. Given the push for making Puerto Rico a haven for cryptocurrencies, it is logical that the citizens of Puerto Rico should have their own currency too.

What are the differences between these two forms of currency? The answer is tied to function. Money can be used for three primary purposes:

- As a medium of exchange (i.e., used to carry out financial transactions)
- As a store of value (like holding gold)
- As a measure of value (lets us put a price on things).

Both types of currencies can be used as a measure of value. However, when it comes to the other two functions, these alternative forms each have a different focus. Cryptocurrencies are used primarily to create a "store of value" that is, they are intended to appreciate like other investments. One would purchase them with the goal of making a profit on the purchase.

In contrast, community currencies have long functioned as a medium of exchange, in other words, to facilitate transactions. Fiat currencies are the generally accepted mediums of exchange, but so too are complementary currencies as they are used primarily to purchase goods and services, rather than as an investment. Such currencies rarely appreciate and some are even intentionally designed to depreciate over time (demurrage).[10]

Why use a complementary currency? History tells us that the use of such currencies has generally produced economically thriving communities with abundant money, especially when applied broadly within a community. In fact, one of the most abundant periods in recent human history occurred in the central Middle Ages (1040-1290), when complementary currencies actually funded the building of more than 1,000 cathedrals in Western Europe (rather than the church or nobility), among many other community benefits. See *New Money for a New World*,[11,12] (Chapter 6).[13]

One of the more recent examples occurred during the middle of the Great Depression. Wörgl,[14] a small town in Austria, was experiencing 30+% unemployment, non-existent revenue to the town and a long list of unfunded projects. The mayor instituted a local currency that over the 13-month period it was in circulation, funded ***all*** the intended works projects. The council also built new houses, a reservoir, a ski jump and a bridge. The people used scrip to replant forests, in anticipation of the future cash flow they would receive from the trees. And unemployment dropped to near zero.

The result was so dramatic that the experiment became known as the Miracle of Wörgl and nearly 200 other towns and cities wanted to try it. That so alarmed the Austrian Central Bank that the bankers outlawed local currencies, killing the project. Wörgl went right back to 30+% unemployment.

Thereafter social unrest spread rapidly across Austria leading to widespread support for joining the German Reich as a way of rebuilding Austria's economy, a good lesson to governments to not block citizens from taking care of themselves.

Other communities have found creative ways to use community currencies (or their equivalent) to address other problems. For example, the city of Curitiba in Brazil illustrates how the introduction of a complementary currency helped a developing and impoverished city leverage its untapped resources to creatively solve a host of previously unresolved challenges and support significant environmental clean-up, job creation and city restoration.[15]

Complementary currencies allow communities to break free from the "it takes money to make money" dilemma that is fundamental to the current bank-created, fiat money financial paradigm.[16] Citizens are free to create their own money without limit and use it however they wish. Knowledge of that can be game changing for societies everywhere and is core to this strategy to bootstrap Puerto Rico's economy.

If the cryptocurrency crowd can create their own money, so can the people of Puerto Rico and use it for their own benefit.

How to use a complementary currency to heal Puerto Rico

Complementary currencies have been around since the days of the pharaohs and are used to address local needs.

> *Puerto Ricans are hard to shock, but the island may be on the verge of shocking the world by seizing a crisis of unimaginable hardship to forge an inspiring new model of economic development.*
>
> *— Elizabeth Yeampierre, Naomi Klein, "Imagine a Puerto Rico Recovery Designed by Puerto Ricans," The Intercept, Dec 2017,*

There are four primary ways that a complementary currency can be issued for local usage:

- It can be purchased (usually with the national currency, e.g., the Bristol Pound).[17]
- It can be lent (like banks when making a loan).
- It can be invested.
- It can be spent into existence.

All four of these methods are detailed in a document that introduces an entity called a Commonwealth Development Organization.[18] CDOs would generally be non-profit organizations that coordinate activities surrounding the issue of complementary currencies. They would normally establish a separate entity to manage that activity, what we call a Public Benefit Financial Institutions. PBFIs are described in greater detail here.[19] CDOs would organize the various mechanisms that utilize those currencies within the targeted communities to carry out broad public benefit economic development objectives.

The four methods explained

1. Purchase the currency

By far the most common method to issue complementary currency is through the exchange of fiat money for the complementary currency. Sometimes it is lent into existence and only rarely is it spent into existence.

The problem with the first method is that the amount of currency in circulation is constrained by the amount of fiat money already in circulation. So, purchasing it does little to increase the amount of money circulating in a local economy. And at best, it only works well if there is plenty of national currency available. Thus, economically stressed communities are hard pressed to realize any benefit by just selling the local currency into existence. Such would be the case for Puerto Rico. Therefore, we need to look to the other methods to enhance the flow of the new currency into the local economy.

2. Lend the currency into existence

In the United States, as in most countries that have their own fiat currency, the national government creates just a small percentage of the money in circulation. In the U.S. that is about 3% issued in the form of printed bills and coins. The balance of the money issued as fiat currency and injected into a country's economy is done via loans made by *for-profit* banks large and small.[20] Every time a bank makes a loan it actually creates new money out of thin air. The government's only role in that process is bank regulation.

Citizens (via a PBFI or other means) may likewise create their own money in the form of *loans made in the complementary currency*. In essence they can make loans as though they are a complementary currency bank. The key difference is that a "bank"[21] is normally a very specific legal vehicle that is regulated by the government. And even the use of the word "bank" (or other similar names

like banco) is usually restricted to those businesses that organize and are regulated as a bank.

Thus, a PBFI may establish loan programs (loans, lines of credit, credit cards, etc.) that would directly mirror those programs in regulated banks, except that the CDO could not call itself a bank and could only make loans in the complementary currency. Such a lending institution does not fall under bank regulations in the U.S. and is not likely regulated in most other countries.

This means the PBFI can establish its own rules and regulations pertaining to lending in the complementary currency.

For example, as the PBFI exists for the benefit of the community rather than shareholders, it could elect to charge little or no interest on those loans. It would also be free to lend a wider range of borrowers than regulated banks might choose, including raw startups (a very rare thing in the conventional banking world).

One of the easiest and simplest ways of using lending as a means of building up the amount of complementary currency in circulation is to establish a line of credit for merchants who sign up for the complementary currency program. They just need to be willing to accept that currency as payment for the sale of their goods and services.

Beyond that, all manner of loans can be established, including consumer loans, car loans, real estate loans and more. The limiting factor is how widespread the complementary currency becomes in the community and who is willing to receive it for payments, wages, etc.

3. Invest the currency into existence

Existing businesses generally need more commercial credit than they need investment capital. Nonetheless, there are times when capital is more appropriate than credit.

The most common are when a company is just getting started (startups rarely get loans from conventional banks until they are at least two years old and can show a profit), when a company experiences high growth that outstrips its ability to fund growth from profits, and when a company is ready to be sold (buyout).

Investment firms focus on different types of need – by stage such as startups, growth and buyout, and by industry such as manufacturing or

[The battle for Puerto Rico is] testing the power of an ascendant class of ultrarich Americans to steer the fate of a territory that is home to more than three million fellow citizens.

—"Inside the Billion Dollar Battle for Puerto Rico's Future," New York Times, Dec 2015

health care. One of the most common and widely known types of investment company is the venture capital (VC) firm.

VCs were originally invented in Silicon Valley to provide early stage capital for start-up companies. Local communities everywhere dream of emulating Silicon Valley and in particular being able to provide funding for their startups.

The major problem in those smaller locations is finding enough wealthy investors to put up the money to establish a VC fund of sufficient size to provide meaningful investments. Generally, such investments require tens if not hundreds of thousands of dollars on the part of each individual investor and therefore are not open to the general public.

That is where the PBFI can come in. A PBFI is free to create as much complementary currency investment money as is needed.

Like with lending, a PBFI would just legally create the complementary currency money on its books and then spend it directly as an investment into both startup companies and as a buyout pool for businesses that might otherwise shut down due to retiring owners not finding a buyer.[22] Thus, each community has a bottomless pool to draw from to support their local needs.

4. Spend the currency into existence

The more impoverished the community, the more the fourth method in particular needs to be employed. That is, the complementary currency needs to be just spent on people and projects directly, rather than via loans that need to be repaid or purchased with existing national money.

Projects

Infrastructure projects, e.g., roads, bridges, parks, public buildings and schools, are an ideal way to inject complementary currencies into communities. These are the kinds of projects that were built under the Works Progress Administration (WPA)[23] launched by President Roosevelt. The key difference between something like the WPA and what is contemplated here is that the government borrowed money (or raised taxes) to pay for it, whereas in a complementary currency world, the money would just be created out of thin air and issued to pay for the projects. This is quite similar to the concept of "helicopter money".[24]

The benefit of these directly funded projects is that they create jobs that inject money into the economy as well as producing something tangible that enhances the common wealth of the community. But what about those who cannot work – who are not able bodied, are aged, are caring for the young, sick and elderly? They need money to survive as well and the jobs solution does not address their needs directly.

People

That brings us to the concept of a guaranteed basic income,[25] as the means of making sure ***every*** citizen has enough monthly income to take care of their basic survival needs of food, shelter and other necessities. The concept of a guaranteed citizens stipend was first introduced in the United States by founding father Thomas Paine[26] and in the United Kingdom by Thomas Spence.[27]

The concept of a universal basic income (UBI) is rapidly growing in popularity around the world[28] with national, state and local governments entertaining establishing some form of UBI or actually doing so. Most recently Chris Hughes, co-founder of Facebook, released a book titled Fair Shot – Rethinking Inequality and How We Earn,[29] in which he argues for UBI.

However, just about everybody, including Hughes, assumes that the funds to pay for a citizens' UBI has to come from the government and that means raising taxes (particularly on the wealthy as Hughes advocates).[30] Getting anyone, especially the wealthy, to agree to have their taxes raised to lift up the poor is a nigh impossible task.

But there is another way – UBI paid for by a complementary currency. And so to avoid confusion with a government funded version of UBI using a national currency, we call our grants to individuals "living income vouchers" or LIV grants (see below).

If citizens grant themselves a basic income using their own complementary currency, there is no one to take from (the rich) to give to another (everyone else). The PBFI is capable of creating the requisite money out of thin air, just like it can for infrastructure projects. (That concept is explored in depth in the document The UNO - A New Complementary Currency Dedicated to Reducing Poverty & Helping Build Healthy Local Economies.)[31] And unlike banks, that create money out of thin air when making loans, the PBFI is not constrained by concerns over shareholder profit or fiat currency reserve requirements.

What could be funded by the UNO on Puerto Rico?

The UNO project described in the above document is tailor made for Puerto Rico. We propose to use it as the basic building block for launching the full Commonwealth Development Organization plan. As described above, (and in greater detail in the Commonwealth Development Organizations document), each CDO will issue its complementary currency in four different ways – sell it, lend it, invest it and grant it.

We call the grants "commonwealth currency grants" and they take two forms: Those to individuals are "living income vouchers" or LIV grants and those to organizations are "development & infrastructure grants" or DIG grants.

The following items will be funded with LIV grants:

- Basic income to all residents in the form of a monthly LIV (UNO) grant for both adults and children. Rollout would be phased to allow for refining and customizing based on local expe-

rience and conditions. The monthly amount is to be determined by consensus of those implementing the plan and can vary depending on regional differences in cost of living. Citizens need only sign up to join the program and there is no other qualification.

- Student grants (college tuition, etc.) and funding for home health care, child care, etc.

The following items will be funded with DIG grants:

- Infrastructure projects (labor and materials), such as roads, bridges and community buildings, and in particular, schools. (The schools would be owned by the community via a non-profit or local government).

- Community-critical jobs, such as teachers, police, firefighters, nurses, EMS and other community service jobs.

- Energy generation projects, in particular biofuel (primarily alcohol from sugarcane or waste biomass) and support projects that use the byproducts of the fuel generation for food production. This effort would provide a market for farmers to sell their crops and a means for the island to replace the fossil fuels that it currently imports. Alcohol is a high-octane clean fuel that can be used by both gasoline engines and diesel engines. Brazil is a good example of a country that has largely weaned itself off fossil fuels by producing large amounts of alcohol from sugarcane.

Other ways that UNOs will be injected into the local economy

- Loans and lines of credit to merchants in the form of UNOs to help them get established and grow. Other UNO loans to other parties as deemed appropriate.

- Venture capital/angel investments in the form of UNOs where that is more appropriate than loans to help create new businesses and grow established businesses.

- Sale of UNOs to parties who want to participate in the local CDO program. Tourists in particular should be encouraged to purchase UNOs when they visit the island, with the explanation that they help to build the local economy by spending UNOs rather than dollars. Dollars can leave the island but UNOs will not.

The above list represents the tip of the iceberg. The options are limited only by the imagination of those implementing the program. Puerto Rico has tremendous resources and creativity in its people. The key is to just get started!

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Endnotes

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