TRC SUMMARY

THE TERRA TRADE REFERENCE CURRENCY (TRC) INITIATIVE

"I foresee new private currency markets in the 21st century."

Alan Greenspan, Chairman of the Federal Reserve Board

This summary will briefly review some of the more important monetary-related issues facing the world today (*Systemic Monetary Issues*). We will then examine the features of a complementary currency proposal, The Terra Trade Reference Currency Initiative *(The TRC Mechanism),* specifically designed to address the systemic monetary issues cited. General and specific benefits and advantages offered by the TRC will be covered last (*Benefits of the TRC).*

This document should be considered a brief overview of current monetary issues and the Terra TRC initiative.

Those interested in, or requiring a deeper understanding of the Terra Trade Reference Currency (TRC) Initiative, are kindly requested to please email us to receive the following document:

The Terra Trade Reference Currency (TRC) Initiative White Paper.

For those interested or requiring a deeper understanding of our monetary system and current monetary issues, please refer to our supplementary PDF documents found on this Web site:

- *Money, A Brief History*
- *In Whose Interest?*
- *Money In Crisis*

SYSTEMIC MONETARY ISSUES

Overview

The world today is facing some key economic and financial concerns, which, persist and are growing in scope despite any and all efforts aimed at ameliorating them. These concerns are:

- Massive job-losses;
- A mounting world recession, which now includes the world's three major world economies;
- A lack of hard currencies and decreasing investments in Less Developed Countries (LDCs);
- Conflict between short-term financial interests and long term sustainability.

These economic and financial concerns are directly related to, and are being amplified by, issues related to our monetary system.

Monetary Instability

Our monetary system is in a state of great instability and change. A current global casino of unprecedented proportions determines our money's value. Over $1.3 trillion are traded per day in foreign exchange markets,[1] a figure that is almost 100 times more than the trading volume of all of the world's stock exchanges, *combined*. Nearly 96% of these transactions are purely speculative; they do not relate to the "real" economy, they do not reflect global exchanges of actual goods and services.[2] Functioning as a speculative market, current economic systems can be undermined not only by tangible economic news, but by mere rumor or perception as well. This unstable monetary situation has resulted in the many foreign exchange crises that have affected no less than 87 different countries over the past 25 years, of which Argentina early in 2002 was but its latest victim (See Supplementary Document #3—*Money In Crisis*).

This growing instability of our current monetary system has been brought about, in large part, by changes to our monetary system, discussed next.

Monetary Changes

The instability to our international monetary system over the course of the last several decades has been fueled principally by three major changes to our money and banking systems:

- **A Structural Shift:** on August 15, 1971, President Nixon unilaterally disconnected the dollar from gold, inaugurating an era without an international standard of value. Thus began *floating exchanges*, a monetary arrangement in which currency values could fluctuate significantly at any point in time. Since this decision, the world's monetary system has not had any reliable international standard of value or a unit of measure (e.g., like the meter for distance, the degree Celsius for temperature or the Herz for frequencies).
- **Financial Deregulation:** in the 1980s, the Thatcher and Reagan administrations embarked simultaneously on a massive financial deregulation program. This was followed by the "Baker Plan," which imposed similar deregulations in 16 key developing countries affected by the debt crisis of the 1980s. This reform package enabled many more new players to participate in currency trading than was ever previously possible.
- **Technological shift:** the computerization of foreign exchange trading created the first 24-hour, fully integrated, global market, ever. (This shift to electronic money has been described as one of only two exceptional innovations over the 5000 year course of money's history, the other occurring at the end of the Middle Ages when the printing of paper began to supplement the minting of coins).[3]

With floating exchanges, financial deregulation and a 24/7 global financial market, it is now possible for a currency to loose much or even most of its value in a matter of hours. Any and all currencies are vulnerable. As John Maynard Keynes noted: "Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done."[4]

Economic & Financial Consequences

The shifts and deregulation mentioned above have resulted in the following consequences to both national and global economies:

Consequences of the Lack of an International Value Standard

The current volatility of our money system has resulted in significantly increased commerce risks with regard to particular national currencies. Currency risks are typically larger than political risks (i.e., the possibility that a foreign government nationalizes the investment), or even market risks (i.e., the possibility that clients do not want the product). In a U.S. Fortune 500 survey, all corporate participants reported foreign exchange risks as one of their main concerns.[5]

The three principal measures used to counteract such currency risks—derivatives, lost opportunities and counter-trade—each presents significant shortcomings, as described below.

- **Derivatives.** In a survey of U.S. Fortune 500 corporations, 85 % reported the need to use derivative hedging strategies to attempt to reduce foreign exchange risks. Aside from having associated risks themselves, derivatives are expensive. It should be noted that those firms most engaged in such hedging were also the largest and most sophisticated.[6]
- **Lost Opportunities.** Another countermeasure that is currently being employed is abstention: many foreign investments end up not being made at all, simply because the currency risk cannot be covered, or its coverage is too expensive. These lost opportunity costs are detrimental not only to the corporations involved but to society at large, especially to those societies and nations most in need—lost investments to Less Develop Countries (LDCs), whose annual rates of economic growth have fallen by one-third over the past two decades.
- **Counter-trade.** A technical term for international corporate barter, counter-trade is estimated to be in common use among no less than 200 countries around the world, with a volume that now ranges from $800 billion to $1.2 trillion per year.[7] This represents a staggering 10% to 15% of all international trade. *Fortune* (U.S.) reports that two out of three major global corporations now perform such transactions routinely, with specialized departments dedicated to the execution of such deals. Though expensive, counter-trade does make it safer to get paid in something that has a known value and use, rather than accept a currency that may have dropped by 50 % in value since the time a deal was struck. Some barter deals occur because the countries involved simply don't have access to hard currency financing (e.g., Pepsi Cola, dealing with Russia by payments in Stolichnaya Vodka).

The TRC initiative will introduce a reference currency that is fully backed by a dozen or so of the world's most important commodities and services in the global market, thereby providing, for the first time since the gold-standard days, an international standard of value that is anti-inflationary.

Boom and Bust Perpetuation

Another systemic issue is that the money-creation process tends to amplify the boom and bust fluctuations of the business cycle by the banking system.

The banking system generally tends to have a herd instinct when either making credit available or restricting it. Specifically, when business is good, banks tend to be more generous in

terms of credit availability, thereby pushing the "good times" into a potentially inflationary boom period. Conversely, as soon as the business horizon looks less promising, banks simultaneously tend to reduce credit availability, thereby contributing to the deterioration of a small business dip into a full-blown recession.

In short, the collective actions of the banking system tend to exacerbate the business cycle in both boom and bust directions. Notwithstanding the attempts by Central Banks to reduce such fluctuations by giving interest rate signals, the current process of creating money through bank-debt remains, in practice, a strong accentuation mechanism in the boom/bust cycle.

The TRC, in contrast, is specifically designed to act as an automatic cycle-stabilization mechanism.

Vested Interest Deadlock

An influential group of special interests has emerged who are opposed to reforming the global monetary system (i.e., oppose taking steps to make the system more stable), because the current instability is a source of substantial profits for this particular group.

In addition, a whole industry has evolved around creating, selling and trading a full range of sophisticated "hedging" instruments that provide protection against currency fluctuations. In some cases, the trading of such instruments has become the most important profit centers, not just for major banks, but also, for the treasury departments of major corporations.

When a master of understatement such as Paul Volcker, ex-governor of the Federal Reserve, goes on record to express his concern about the growth of "a constituency in favor of instability," it may be wise for each of us to feel concerned as well.

Political Inaction

It is rare that national governments engage in significant currency reforms. While the reasons for such a prevailing posture are varied and often complex, the end result is nevertheless the same: a customary lack of initiatives.

Added to this is today's geopolitical environment in which the United States has emerged as the world's sole superpower, and the U.S. dollar as the world's pre-eminent currency. This reality confers upon this nation a commanding voice in international monetary policymaking but reduces the likelihood of any significant governmental monetary initiative being taken. As John B. Connally, former U.S. Secretary of the Treasury under Nixon, remarked: "The dollar may be our currency, but it is your problem." This "benign neglect" approach continues still, making a cooperative governmental initiative by the United States unlikely.

Therefore, any monetary initiatives that are to be taken must be initiated by the private sector.

The TRC initiative takes this vested-interest and geo-political reality into account.

THE TERRA TRADE REFERENCE CURRENCY (TRC) MECHANISM

The Terra TRC is a demurrage-charged, privately issued, complementary, Trade Reference Currency, that is backed by an inflation-resistant, standardized basket of the dozen most important commodities and services in the global market. The TRCs will be issued by The TRC Alliance as inventory receipts, with an organizational structure that is open to all newcomers meeting certain pre-established criteria (similar to that of the *Visa* credit card system).

Demurrage-Charged

The TRC is a demurrage-charged currency. A demurrage charge acts much like a parking or rental fee, incurring a *cost* over time to its holder. The cost for holding onto the TRC currency is estimated at 3.5%-4% per annum. This demurrage charge insures the currency's use mainly as a trading device: it would not be hoarded but always tend to remain in circulation. It would thereby strongly activate commercial exchanges and investments wherever it circulates, the opposite of a conventional interest rate currency.

Standardization of Counter-trade

The TRC is from a legal and taxation viewpoint simply standardized counter trade. Given that the fact, this initiative does not require governmental negotiations or international agreements, or new tax regulations, because counter trade is already practiced routinely (and taxed) almost everywhere in the world.

Complementary Currency

The TRC is designed as a *complementary* currency that operates in parallel with national currencies, without competing with or trying to replace them. Every currency and financial instrument that currently exists would still be available for anybody who wants to use them after the TRC is operational.

Trade Reference Currency

The TRC is backed by a standardized basket of the most important commodities and services in the global market (e.g., oil, wheat, copper, etc; as well as some standardizable services such as Carbon Emission rights). It would, therefore, be conceptually similar to a fully backed gold standard, but in the case of the TRC, the backing would consist not of one single commodity but of a dozen of the main international commodities, *including* gold. Since it is fully backed by a physical inventory of commodities, the TRC would be a secure, robust and credible payment and provide a stable international mechanism for contractual and payment purposes worldwide.

Inflation-resistant

The TRC is designed as an *inflation-resistant* currency by its very composition. Inflation is always defined as "the changes in value of a basket of goods and services." By selecting the appropriate ingredients to be placed in the basket, the TRC can automatically be protected against inflation.

BENEFITS OF THE TRC

The Terra TRC Initiative addresses each of the major economic and financial concerns mentioned earlier, and offers both general benefits and specific benefits to particular interest groups. General and specific benefits will be examined next along with an analysis differentiating the TRC from all other proposals/ initiatives aimed at redressing present monetary concerns.

General Benefits of the TRC

The TRC mechanism, by virtue of its demurrage charge and being inflation-resistant, endows this trading instrument with three unique economic advantages, namely:

- The TRC provides a robust international standard of value.
- The TRC counteracts the boom/bust fluctuations of the business cycle, thereby improving the overall stability and predictability of the world's economic system.
- The TRC realigns financial interests with long-term concerns.

Robust International Standard of Value.

The TRC would provide a *robust international standard of value,* something that has been missing for decades. Since it is fully backed by a physical inventory of not one, but a dozen or so of the world's most important commodities, including gold, the TRC would be a very robust and more stable than conventional currencies today, and therefore makes available a credible payment unit with less volatility and currency risks. This robust standard of value benefits commerce in the following ways:

- Lowers costs by reducing the need for expensive hedging counter-measures.
- Enables greater opportunities (including investments in developing countries) by providing a stable mechanism by which to conduct commerce.
- Offers a dependable, cost-effective reference mechanism for global counter-trade.

Cycle-stabilization.

The TRC automatically tends to counteract the boom and bust fluctuations of the business cycle, thereby improving the overall stability and predictability of the world's economic system.

When the business cycle is weakening, corporations customarily have an excess of inventory and a need for credit. The excess inventories can now be sold to the TRC Alliance (who would place these inventories into storage). The TRC Alliance would pay for these inventories in TRC, thus providing corporations with a means of needed working capital (typically not readily available in this part of a business cycle). These corporations would immediately spend the TRC's, say, to pay their suppliers, so as to avoid the demurrage charges (whose holding costs accumulate over time).

Suppliers, in turn, would have a similar incentive to pass on the demurrage-charged TRC's as a medium of payment. The spread of this currency (with its built-in incentive to trade) would automatically activate the economy at this point in the cycle.

On the contrary, when the business cycle is in a boom period, demand goes up and both suppliers and corporations have a need for inventory. The TRC's would now be cashed in back with the TRC Alliance (against a 2% transaction fee) and the now needed inventories would be taken out of storage and made readily available. This would also reduce the amounts of TRC's in circulation when the business cycle is at its maximum, counteracting an inflationary boom phase.

In summary, the TRC-denominated exchanges would provide additional monetary liquidity to stabilize the business cycle and thereby compensate for the pattern observed in the money-creation process of conventional national currencies.

Realignment of Financial Interests with Long-term Concerns

The demurrage feature of the TRC would provide a systematic financial motivation to realign financial interests with longer-term interests. This is in direct contrast with what happens today with conventional national currencies. The discounted cash flow of conventional national currencies with interest rates systematically emphasizes the immediate future at the expense of the long-term. The same discounted cash flow with a demurrage charged currency produces the exact opposite effect. The use of the TRC for planning and contractual purposes will therefore reduce the conflict that currently prevails between the stockholder's financial priorities and the long-term priorities of humanity as a whole.

Specific Group Benefits

Virtually everyone stands to benefit from the TRC. Listed below are specific advantages that apply to multinational corporations, the banking sector and financial services, Less Developed Countries and developed nations and the population at-large.

Multinational Corporations

The TRC offers corporations the following advantages:

- Makes it possible to convert inventories of illiquid assets, specifically major raw materials that are part of the Terra basket into liquid ones. This is a significant advantage, given that inventories are otherwise a cost item to businesses. Over time, such storage costs can become substantial.
- Provides working capital at a lower cost than with conventional national currencies, as the TRC demurrage fees stop as soon as the TRCs are spent.
- Offers consistency in international contracts. No party would loose out because of monetary instability or currency fluctuations. All participants will be able to rely on a robust standard of value.
- It lowers the cost of doing business, by reducing the need for expensive currency hedging counter-measures and providing a dependable, low-cost insurance against uncertainties deriving from international currency markets.
- Offers a dependable, more cost-effective exchange mechanism than conventional corporate barter.
- Encourages new markets and enables greater opportunities by which to conduct global commerce, including investments in developing countries, by providing a stable international currency. Because of the instability created by floating exchanges, there has been more than 30% less investments to Less Developed Countries. This situation has limited the availability and the creation of markets which are generally too poor to participate in the global marketplace.
- Saves money and vital resources. Corporations, as a result of the boom and bust business cycle phenomenon, are often under-equipped and looking for qualified staff, or over-equipped and over-staffed. The costs of training people, only to then fire them, along with the expenses incurred in plant and equipment investments are considerable.
- And, it is well known that political instabilities often occur during and result from economic downturns, which is not a healthy climate for businesses either.

Benefits to Financial Services and the Banking Sector

There are three main advantages of the TRC mechanism for the banking system:

- Currently, the banking system has no role at all in the fast growing counter-trade field. The TRC introduces standardization in counter-trade, thus making part of the mechanism bankable. Banks will be able to provide traditional foreign exchange services utilizing the TRCs, which can then be converted into any and all national currencies. They can also provide their customary services such as account management, transfers and advice with the TRC, as they do today with any other foreign exchange transaction.
- The counter-cyclical impact of the TRC mechanism will stabilize the value of banking loan portfolios. There have been numerous major banking crises around the world over the past two decades, whereby borrowers can't repay their loans, and the collateral upon which the loans were based, depreciates. These conditions are aggravated by the boom/bust cycle and currency fluctuations. Therefore, as the TRC mechanism helps to stabilize economic cycles, the number and severity of crises in bank portfolios would also be reduced.
- Finally, the task of central banks would also be made a bit easier, thanks to the TRC. Not only would there be fewer banking crises to manage, but also their routine job of trying to counteract the business cycle would be eased.

Less Developed Countries (LDC's)

Currently, as a direct result of currency instability, LDCs suffer from a lack of investments, resulting in a scarcity of hard currencies and in debt traps created by the inability to repay foreign loans. The developing world has spent more that $13 on debt repayment for every $1 it receives in foreign aid. The TRC mechanism helps to address these problems and offers two distinct and important benefits to LDCs.

- The availability of a stable international currency creates more opportunities by which to conduct commerce and make investments in developing countries.
- LDCs that produce commodities (i.e., raw materials such as oil, copper or cocoa that would be components in the basket of the TRC) would be in a similar position as any of the corporate participants in the Terra TRC mechanism. Furthermore, those countries that produce such commodities would find themselves in a position identical to gold producers during the gold standard days: what they extracted (gold), was directly a globally convertible currency.

Developed Countries

- As stated earlier, the developed world is facing its first simultaneous economic downturn since the 1930s. If the TRC were implemented in a timely way, it would help re-launch the world economy by injecting international liquidity into the global economy and thereby help stimulate the economy out of the looming global recession.
- Helping LDCs would create growing markets for the exports from developed areas.
- By stabilizing the business cycle, greater job stability and opportunities would then become available as well.

Humanity as a Whole

As long as business is focused on short-term profits, the chances are uncomfortably low that any long-term sustainability is possible. Inevitably, it will be the masses of ordinary people that will end up paying for a failure in sustainable development. In contrast, the introduction of the TRC with its demurrage functionality makes long-term thinking profitable and thereby significantly increases the chances of a more sustainable world for our children and future generations.

Furthermore, the stabilization of the business cycle makes jobs more secure everywhere.

Differences with Earlier Proposals

The TRC is a commodity-basket currency. For more than a century, there have been several proposals for commodity-basket currencies by a series of well-known economists.[8] The main reason why they have not been implemented is not due to a technical fault of the concept, but rather because they were aiming mistakenly at *replacing* the conventional money system. Such replacement would have put in jeopardy powerful vested interests. This is not the case with the TRC proposal.

On the contrary, the win-win strategy underlying the TRC mechanism includes the financial sector as well. The TRC is a *complementary* currency, which is designed to operate in parallel with the existing system. Anything that exists under the current monetary *modus operandi* would remain in operation after the introduction of the TRC.

Finally, as stated earlier, the political context for an international monetary treaty has not been available. The TRC avoids this pitfall by relying on private initiative. From a legal or tax standpoint, it would fit within the existing official framework of counter-trade, and therefore not require any formal governmental agreements to approve or make it operational.

The other conceptual difference and perhaps the most important one between the TRC proposal and all previous proposals is the introduction of the demurrage concept. The fact that the storage costs of the basket would be covered by the bearer of the TRC, resolves the inherent problem that previous commodity proposals were facing, namely: “who will pay for it all?”.

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In conclusion, the TRC mechanism is a win-win approach for all main participants in the global game, and that is why it may have a chance to succeed where other proposals for monetary innovations have failed in the past.

ENDNOTES

1. This data dates to April 2001, date of the latest tri-annual survey by the BIS. This corresponds to the so-called "traditional foreign exchange markets" and doesn't include the derivatives estimated at another 1.4 trillion for the same date.
2. These statistics are derived from the total daily foreign exchange transactions as reported every three years by the BIS, and compared to Global Annual Trade divided by the number of days.
3. Davies, G. A History of Money from Ancient Times to the Present Day (Cardiff, University of Wales Press, 1994) 646.
4. Keynes, John Maynard The General Theory of Employment, Interest and Money (London, Macmillan, 1936) 159.
5. Dolde, W. "The Use of Foreign Exchange and Interest Rate Risk Management in Large Firms," *University of Connecticut School of Business Administration Working Paper 93-042* (Storra, Conn. 1993) pp. 18-19. There was also consensus that interest rate risks were an order of magnitude less important than foreign exchange risks.
6. Dolde, W. "The Use of Foreign Exchange and Interest Rate Risk Management in Large Firms," *University of Connecticut School of Business Administration Working Paper 93-042* (Storra, Conn. 1993). The 85 % of the firms that routinely have to hedge have a capital averaging at $8 billion, compared to $2.5 billion for the 15 %, which never hedged (See exhibit 1, 23-24).
7. Estimates, as reported by the U.S. Department of Commerce, the World Trade Organization (WTO) and *The Economist* (U.K.).
8. See for example in chronological order: W. Gevons: Money and the Mechanism of Exchange (1875); Ian Gondriaan How to Stop Deflation (London, 1932); Graham, Benjamin Storage and Stability (New York: McGraw Hill, 1937) and World Commodities and World Currency (1944); and World Commodities and World Currency (New York: McGraw Hill, 1944); Harmon, Elmer Commodity Reserve Currency (New York: Columbia University Press, 1959); Albert Hart of Columbia University, Nicholas Kaldor of Cambridge University and Jan Tinbergen: The Case for an International Reserve Currency (Geneva: presented on 2/17/1964 (Document UNCTAD 64-03482); St Clare Grondona Economic Stability is Attainable (London: Hutchison Benham Ltd, 1975).