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## **LETS Dogmas and Refutations**

*This appeared in an email sent to another LETS group*

There are a number of dogmas about LETS that I disagree with. They are more or less admitted to be against common-sense [or at least 'preconceived ideas'], and the chief justification for them seems to be that they appear to work (at first).

Dogma 1. "LETSystems keep energy in the group, and THERE IS NO NEED TO WORRY ABOUT LEAKAGE OF ENERGY." There is no consideration of what happens when a group (like ours) runs for ten years, leaking a small amount of energy each year. The way energy leaks is people leaving on a negative balance.

Dogma 2. "You don't need to worry about what happens when people leave the group on a negative balance." In the short term, this assumption works fine. The effect is spread over the system, and people don't think more about it. What happens when it continues over a long period? I won't go into details at this point, but the trouble is that the effect never goes away. The effect builds up in the system to gradually stop it working (the response to Dogma 4 explains how).

Dogma 3. "People leaving on a positive balance will cancel out people leaving on a negative balance." In our LETSsystem records of the last 13 years, this is clearly not true at all. Thinking about this in human terms gives some obvious reasons why. Leaving on a positive balance means that you have put more into the system than you took out. Leaving on a negative means that you took more out than you took in. In practice, it appears to be a sad fact that people will tend to take more out than they put in. This is not usually people out to deliberately rip off the system, but just a failure of good intentions to pay back the system someday. Saying that positive and negative are equivalent is about as realistic as saying that up and down are equivalent. Philosophically, this is true, but you still need a bottom for your teacup more than you need a lid for it. Another way of looking at it is this: imagine you are about to leave a LETSsystem with a positive balance - surely you would be inclined to spend it, or at least to give it away if you can't spend it. If you are about to leave with a negative balance, you simply leave with a negative balance and that's the end of it.

Dogma 4. "The total across all accounts will always be zero. No one can change the amount of currency in the system." This one is a dangerous half-truth. Yes, in bookkeeping terms, the balance will always be zero. But in REAL terms, the balance in lapsed accounts is no longer there. As an example, imagine someone enters a LETSsystem, gets a fridge for 500 points and leaves with a negative balance of -500 points. The energy of a fridge has just leaked out of the system. The "-500 points" in his account is still in the system for bookkeeping purposes, but there is no way anyone is going to be able to get anything from him. In real terms, what he has done is increase the total across all ACTIVE accounts by 500 points above zero.

Dogma 5. "The amount of currency circulating in the system will look after itself." This is based on the fact that the bookkeeping balance of currency in the system is zero. However, the REAL balance of currency in the system tends to increase every year as people leave on negative balances. The effect is the same as if someone were running a printing press to create more currency each year.

Dogma 6. "It will always be possible for everyone to keep their accounts operating around a zero balance." I think the best response to this is to say exactly what we noticed in our

thirteen-year-old group. We had a list of 30 active members, some with balances of many thousands of points. Some people said that the answer was to trade more so that everyone could get to a zero balance. I added up the totals across active accounts, and averaged them. If everyone traded so that points were equally shared, then each person would end up on a balance not of zero, but of SEVEN HUNDRED POINTS. What that would mean would be that everyone still in the system at that point would have given seven hundred points worth of things more than they got - which would not be fair! With all those points in the system, there HAVE to be people at any given time who have given thousands of points of stuff more than they have got - which is not fair! These people will then be unable to spend the points because nothing useful will be left to spend them on (economic explanation of this can be given at another point to simplify this letter).

Dogma 7. "The LETS system does not create victims." Probably the best way to respond is with our local LETS system again. At the moment, we have an imbalance of around 20,000 points to the positive. Put this way, it sounds like a tremendously dull piece of bookkeeping that no-one should get excited about. In real terms, though, it means that at any given time, the people in the system have to have put in 20,000 points worth of things more than they took out! This means that there NEED to be people in the system at any time that have put in thousands of points worth of things more than they took out. These people are required by the maths of the system, and they are victims. In real terms, these people have to pay for what the people leaving on negative balances took out. Any given person can choose to trade around a zero balance, but victims are required by the system.

If you are interested, you can run through the economic effect of extra points in a system which is designed for a zero total. Basically, it works the same way as extra paper money being printed finally makes all the paper dollars worthless (best example Germany in the 1920s). Because LETS points are fixed to the dollar instead of being free to inflate, major inflation is not observed, but people simply stop selling things they really want for LETS points.

One answer to this problem is to restore some scarcity to the local currency, make energy leakage difficult, and carefully balance up the effects of people who leave taking more than they gave.