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Author(s): SUSAN WITT and CHRISTOPHER LINDSTROM

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LOCAL CURRENCIES IN THE TWENTY-FIRST CENTURY

SUSAN WITT AND CHRISTOPHER LINDSTROM

There is nothing more powerful than an idea whose time has come.

—Victor Hugo

The most sustainable economy would be one in which the goods consumed in a region are produced in the same region using local resources and local labour. Ernest Fritz Schumacher referred to such a system as “an economy of permanence.” His 1974 book *Small is Beautiful: Economics as if People Mattered*, remains the most compelling case for building vibrant regional economies as a counterpoint to our increasing reliance on far-flung global production systems.

The E. F. Schumacher Society, formed in 1980 after Schumacher’s death, is dedicated to creating and promoting the appropriate scaled economic tools that foster patterns of regional economic production and trade, benefiting small businesses and family farms, and involving consumers ever more directly with the people and land of their community. Among these tools are local currencies. During the weekend of June 25–27, 2004, the E. F. Schumacher Society convened a conference “Local Currencies in the Twenty-First Century: Understanding Money, Building Local Economies, Renewing Community”. Over three hundred people gathered at Bard College on the Hudson River in New York State to join what popular singer Pete Seeger called, “the best conference I ever attended.”

In today’s global economy national currencies have had the effect of centralising ownership of wealth and of widening the gap between rich and poor—all the while undermining local communities, devastating indigenous peoples, and polluting the environment. Decentralised regional currencies are an important counterforce working to redistribute wealth more broadly while supporting unique regional identities, cultures, and communities. A local currency defines a regional trading area, favouring those small independent businesses willing to trade in the currency. Local businesses, unable to compete with the products of an increasingly predatory global economy, become strong players in resilient, regional marketplaces.

In 1972 Robert Swann worked with Ralph Borsodi, to issue a local currency in Exeter, New Hampshire, called the Constant. This experiment ended after a year due to Borsodi's health, but Swann's passion to responsibly issue currencies to renew local economies and local communities endured. Asked to serve as founding President of E. F. Schumacher Society, Swann applied this passion and helped shape the E. F. Schumacher Society's work in the Berkshires with SHARE, Deli Dollars, Berkshire Farm Preserve Notes, and BerkShares. Swann died in January of 2003, before the local currency conference was conceived. However, if he had been there, he would have thanked the pioneering activists attending for their work in their own communities, encouraged them to share the sense of possibility and hope that comes from local action, and expressed his trust in a younger generation creating new, regional solutions.

FROM THE CONFERENCE OVERVIEW

Local Currencies

The E. F. Schumacher Society employs the term "local currencies" to refer to place-based monetary tools for building sustainable local economies. Other terms that have arisen and which were used during the conference, include "complementary currencies," "community currencies," and sometimes "alternative currencies." These local currencies take many forms.

Local Bank Notes

In the 1800s nearly all commercial banks in the United States issued their own individual currencies at the point of making "productive" loans to businesses. Typically a productive loan is made for purchase of equipment (machinery, tools, supplies) that will result in an increased availability of goods in the economy. In this way local banks determined the amount and kind of credit needed to stimulate business development in each particular region. In 1913 with the creation of the Federal Reserve Act, local bank money was replaced by the federal dollar issued by a coalition of private banks that make up the Federal Reserve banking system.

The Constant, issued in 1972 by the International Independence Institute, under the leadership of Ralph Borsodi and Robert Swann, circulated for a year in

Exeter, New Hampshire stores as a demonstration that local bank notes, working with the not-for-profit sector, remain a contemporary option for local exchange.

Hours

In 1991, Paul Glover organised a local currency for his hometown of Ithaca, New York, that used paper notes for trade of local goods and services. The notes were denominated in hours of labour (equivalent to the average hourly wage for Ithaca or \$10). To begin circulation, Hours were issued to owners of small businesses willing to accept the notes in trade for goods and services. Paul's concept was that Hours would be backed by the future productivity of those to whom they were issued and so Hours would maintain a strong value independent of the fluctuation in federal dollars.

Over the next decade, Hours programmes spread in over 50 communities throughout the United States and Canada engaging citizens in the discussion of creating their own regional monetary systems. Of these start-ups only a few are still running. Ithaca Hours continues to grow, having developed several new initiatives including a local health insurance programme and exceptional collaboration with the Alternatives Credit Union that offers an optional Hours account.

One factor in the attrition of Hours programmes is that community groups failed to anticipate the start-up time and costs involved in promoting and sustaining a new currency issue.

Time Dollars, Time Banks (UK)

Following a long illness during which the services of others were critical to his recovery, lawyer Edgar Cahn devised a programme called Time Dollars. Time Dollars are used to record the good deeds of neighbours for each other. Old, young, handicapped, and marginalised, all have some service to contribute to their community and so can earn and bank Time Dollars for occasions when they are in need. In order for Time Dollar Institutes to maintain tax-exempt status as charities, Time Dollar transactions are generally limited to what would be called "the gift economy," excluding commercial economic exchanges. Nevertheless, Time Dollars have shown to be an extraordinary tool for weaving values such as reciprocity, trust, cooperation, and what Edgar calls "co-production" in a community. Numerous Time Dollar networks are active throughout the US and the UK.

LETS (Local Economic Trading Systems)

Michael Linton founded the first LETS programme in the early 1980s on Vancouver Island in Canada. LETS programmes were created as a simple debit and credit system, denominated in the national currency. Consumers wishing to purchase goods or services offered through the LETS programme would simply phone in a transaction to a central coordinator and their LETS account would be debited and the seller's account credited. Producers would then spend their credits with other members in the system. The system was essentially self-regulated with members issuing their own line of credit at the point of making a purchase.

LETS programmes are by far the most popular local currency systems throughout the world, spawning various adaptations. LETS development has been slow in the US, however. IRS law recognises LETS programmes as barter systems and as such requires system managers to report the total value of transactions for each individual to the Internal Revenue Service. This kind of management has proven costly and burdensome for start-up systems, discouraging broad replication in this country until today.

Self-Financing Scrip

In 1989, after being denied a bank loan, the owner of The Deli in Great Barrington, Massachusetts, issued "Deli Dollars" as a way to finance the move from one location to another. Customers bought Deli Dollars for \$8 to be redeemed for \$10 worth of soup and sandwiches at a later date. It was not the first time scrip had been used as a self-financing tool for a small business, but Deli Dollars caught the attention of international media including CNN, NBC, CBS, and Tokyo TV, giving new energy to the local currency movement.

Other small businesses in Great Barrington issued their own notes to eager customers, demonstrating that citizens working together can create independent, low-cost methods of making micro-credit loans that double as a local currency.

Multiple-Store Notes/Customer Loyalty Scrip

In 1991 in Great Barrington seventy merchants worked with the Chamber of Commerce to issue BerkShares. During a six-week period, customers collected one BerkShare for every \$10 spent at one of the stores. Then during a designated three-day redemption period, BerkShares could be spent as cash for store items,

creating a spirit of festivity on Main Street. Again there are many variations on this simple approach in which multiple businesses reward their regular customers through discount notes.

In some areas such as Toronto, Canada, and the Salt Spring Island off Vancouver, consumers initiate the exchange through conversion of federal notes to a local currency traded exclusively at regional stores.

NATIONAL AND INTERNATIONAL EXPERIMENTATION WITH FORMS OF CURRENCY

Economists have long debated monetary theory, putting forth different arguments about how money should be placed in circulation. Many involved in the local currency movement are at the same time interested in alternative or complementary national and international currencies. Some of these interests were represented at the conference.

Commodity-Backed Currencies

For centuries fiscal conservatives have advocated for a currency backed by something of perceived value such as gold and silver as a way to discourage the over-issue that leads to inflation. Others have suggested backing in a basket of commodities such as grains, vegetable oils, fossil fuels, and minerals. The Liberty Dollar is a contemporary private, for-profit revival of the effort to create a gold and silver-backed currency.

Electronic Trading Tools

The internet and other new technologies such as “smart cards” have opened the possibility of trading without use of traditional forms of money. Many inventive individuals are suggesting ways of linking these electronic cards, which are primarily tools to facilitate consumer credit, to businesses with defined missions, such as merchants of green products.

The majority of these applications are still on the drawing board, but their developers have imagined including aspects of customer loyalty notes and other discount benefits as incentives for consumers to join. Most are denominated in US dollars though the Terra Trade Reference Currency proposed by renowned economist and banker Bernard Lietaer is exploring an electronic trading card with transactions denominated in a basket of commodities held by global corporations.

Barter Exchange Systems

Our earliest experience of barter is the simple exchange of goods or services between two people. However there is a thriving international world of commercial barter exchanges. These systems can involve complex multiple trades. While most of these systems denominate trades in US dollars, some are introducing their own measure of exchange functioning much like a currency.

In 1934, Basel, Switzerland became headquarters to a highly successful Swiss business-to-business barter exchange system known as "WIR," (German for "We") Consumers are excluded from participation. Trades are denominated in WIR and businesses can "bank" credits for future transaction. Members are given discount incentives for trading within the system. System administrators are authorised to extend credit (make loans in WIR) to businesses meeting the system's economic criteria. The WIR network was credited with stabilizing the Swiss economy during the great depression.

Other barter groups rely on inventories of excess capacity, offering these inventories in trade at discounts to members. Some commercial barter groups are considering ways to expand their trade to include consumers, thereby functioning like a currency within a defined trading arena.

HISTORY AND THEORY OF MONEY

All of the innovative programs described during the conference grew out of a series of private and public discussions on the nature of money, its role in the economic system, and its effect on society and culture. All of the plenary and workshop presentations touched on this subject in some way; some focused on it.

REPORTS FROM ABROAD

We were privileged to have a number of presenters from abroad who reported on the complex of local currency programmes in their regions.

FUTURE OF LOCAL CURRENCIES

The varieties of local currency programmes, as outlined above, involve three very different kinds of money. One is consumer credit that facilitates the ability of individuals to purchase needed goods and services. The second is gift money recording our generosity to others. The gift economy builds very real links in a

community, strengthening the social and cultural fabric and contributing to the quality of life, but does not directly enter into the creation and exchange of goods and services. The third kind of money is what is commonly known as investment capital. This is money needed for business start-ups and expansion, capital for the means of production as distinct from monthly operating costs. When Jane Jacobs, the renowned regional planner, portrayed regional currencies as an elegant tool for creation of import-replacing businesses, she had this third kind of money in mind. In the future all three forms of money will be essential to an overall strategy for building healthy local economies.

What should we expect from the local currency movement in the near term?

1. Certainly innovation in consumer credit systems supporting "Buy Local First" programmes, and providing incentives for consumers to come back to the storefronts on their Main Streets.
2. Greater cooperation between the highly popular Time Dollar systems and the consumer credit systems in which administrative capabilities are shared, outreach in the local community is shared, and technology is shared.
3. At the same time it will be essential to apply our collective creativity to the problem of how communities can issue local currencies in the form of no-interest loans to finance businesses producing goods now imported from afar.

CITIZEN ACTIVISTS

There is much work ahead. All of those who gathered at the conference are engaged in creating solutions to the growing problems of globalisation; solutions that will link us ever more directly with the people and land of our own communities. The conference was convened to honor and support this emerging era of vibrant citizen activism.