Explorations of the Localisation of Money

“Can the Earth Survive Capitalism?”
Short Course Essay

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Introduction

One of the main realisations I gained from the study of capitalism was just how unsustainable the current model is. In this essay I propose to first outline the main flaws in the current capitalist system, as brought to our attention in classes here at Schumacher College, then I describe some models for local currencies and finally reflect on which flaws such local currencies can address. As this essay is restricted in length, I have only described the selected local currency models briefly. This essay should rightly be thought of as an introduction to the topic of local money.

The Fundamental Unsustainability of the Dominant Economic Model

Growth for Growth's Sake
Money is released into the economy largely by commercial banks as debts to be repaid with interest. As there has to be enough money in the economy for the capital to be repaid together with the interest (and only the capital has been spent into the market), more money is constantly demanded in the financial market. This is released into the market as more loans, pushing constant growth. This has left us with an economy that has to expand every year else risk slipping into depression. Further to this, a lot of economic growth has been facilitated by the so called 'financialization of capital', consisting of financial instruments like futures, options, derivatives, and hedge funds etc[1]. Large sums of money can now be made without any real world production taking place. This may sound better for the environment, but a significant amount of the population are now employed simply in perpetuating capital growth, making it more difficult to move away from growth dependence without economic collapse[2]. Since the advent of fractional reserve banking (where banks can lend out many times more than the amount of money they have in reserve) and the breaking of the gold standard (severing ties between the real and monetary economies), growth has been able to blossom at a frightening rate, and consumption along with it. Unbridled consumption in a finite world is clearly a dangerous thing.

The Arrogance of Ownership
Marjorie Kelly explained to us that she saw a core problem of capitalism to be the notions our societies carry around ownership. Specifically that the owner is superior to the owned, leading to the perception that natural ecosystems have no inherent dignity or value and so they can be exploited without a second thought. This is the problem Peter Barnes is working to overcome with his concept to create a new sector (apart from corporate and government) that he calls the commons sector. Barnes sees the natural abundances of our biosphere as belonging to everyone and feels there should be structures in place to protect them. Natural abundances form part of what Barnes calls "the commons" and any gains provided by such common property are thought to rightly belong to all people equally. He proposes trusts be established to protect such commons, with their primary mandate being to protect them for future generations. A 'Sky Trust' could be one such entity to protect against atmospheric pollution. There was much debate in our classes about things like the sale of pollution rights for our common atmosphere. Many were of the opinion that this represented a commodification of nature and was to be avoided. However, if we are to continue to have computers, aeroplanes, etc. then human use of Gaia's abundant resources will continue and we need some way to keep our exploits within sustainable bounds. I am generally in support of the idea of commons trusts, but would prefer that the trusts fostered a concept of 'stewardship rights' rather than 'ownership rights' over our living environs. I don't believe that all *people* share the commons, I believe that all *beings* share the commons. Perhaps we will one day see ownership of land, geological features, animals and plants as abhorrent as we now see the ownership of humans as slaves. I look forward to a future where the word "mine" will come to mean "I have responsibility and love for" (as in the context of "my child") rather than meaning " I have dominion over".

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[1] John Bellamy Foster, 1997, p3
[2] This is my understanding of explanations made by Richard Douthwaite in lectures at Schumacher College, 2008

The Abstraction of Ownership
Further to this, the owners of most large companies have become abstracted from the company's operations as they are often now shareholders who don't necessarily even know with which companies their money is invested. The obligations of companies to maximise the share price for such owners shifts the company's value system away from the real, tangible, touchable, feelable outcomes of the company's operations to the abstract numbers that appear on it's financial balance sheets. Since living systems and loving grandmothers do not feature on the balance sheets of companies, Marjorie Kelly points out that social and environmental factors are simply not seen by the 'lens' these companies see through. With abstraction comes the easy loss of ethics, if people are not in touch with the reality of the decisions they are making, it is much easier to be disrespectful of the consequences of those decisions.

Questions of Scale
As the primary mandate of capitalism is to protect and grow capital, multinational corporations proliferate, where profits are hoarded and companies grow as large as possible. The scale of many multinational corporations is staggering. Among the world's 100 largest economies, 51 are corporations.[3] Corporations on this scale are beyond human experiential understanding. Therefore decisions made in very large companies are inherently abstracted from the real consequences in the communities and ecosystems where they operate. As noted above, with abstraction comes the easy loss of ethics. Furthermore, at large scales, companies who trade in a region generally do not leave their profits in that region. Companies may argue that they are benefiting the region by bringing employment and hence boosting the local economy. However, whilst salaries are injected into the local economy, generally profits are not. People working within massive scale corporations can also came to feel that they are mere 'cogs in a wheel' as they lose their autonomy to a larger entity. I believe that as people lose their autonomy, so too do they lose their initiative and creativity, and they may start to look to external authority to guide their decisions generally. In this way, their sense of responsibility is eroded and they become further abstracted from the web of life that supports them.

Modern Local Currency Models

Following are six descriptions of local currencies, although many more exist, especially if you look back through history. All of those I have chosen are in use currently somewhere in the world. Local currencies may play a part in moving beyond the problems outlined above, and in the final section of this essay I will reflect on how the currencies described may help.

LETS as a system of mutual credit
LETS, or The Local Exchange and Trading System, is a widespread model created by Michael Linton in Canada, and his first system started in 1983. LETS facilitates community members trading goods and services using units of currency particular to the organisation (often called 'green dollars'). LETS can operate independent of the national currency in theory, although generally units of LETS value are worth the same as the national currency units to make it easy for people to price the goods or services they are offering within the system. Due to this link, if the national currency inflates, so too will the LETS units. One can start trading by simply going into debt, you use a service or receive goods from another member in the system and your account is debited, whilst their account is credited by the same amount. You then honour this debt by offering services or goods to another member within the system. Many LET systems accounts are managed electronically, and all trading accounts are open to others in the system to view. Thus, theoretically, people will not trade with those who are keeping their accounts too far in debt. It is a simple honour system, however, some systems have limits on the amount one can go into debt. LETS earnings are taxable in most countries if traded for professional services but the tax must be paid in the national currency. Whilst the trading turnovers are small, authorities may not bother with regulations around taxation. In practice most LET systems have boomed and then faded. Various reasons have been given for this, including, some members having run up too much debt, or there not being a diverse enough range of things people could spend credit on to keep them interested. LETS systems require administration also, and this has often been done by volunteers, but also paid for by members in some systems.

[3] Kelly, 2001, p6

Time Banks: credits earned by spending time in community service

The time bank idea was developed at the London School of Economics by Dr Edgar Cahn in 1986. There are many variations on this theme, but generally a person will give their time to help another an earn equal time in hours that they can claim by having someone help them at a later date (everyone's time is valued equally). The kinds of services offered within a time bank include support of elderly people or people with illnesses, students providing support and mentoring to other students (in one case receiving a reconditioned computer in return)[4], DIY jobs and no doubt countless other community based services. Time banks are often initiated and managed by public service organisations in the UK. Some of the ways these schemes differ from LETS are that they are generally run by an organisation with paid staff, to be accepted into the scheme references are required and a police check if you are to work with children, all transactions are arranged by a 'broker' who keeps track of account balances and seeks to match appropriate skills with needs, and earning time bank hours does not have to be declared to the government if a person is receiving a benefit, where as LETS earnings do in the UK. This system values the kind of work that volunteers, neighbours and families have traditionally done for each other for free. According to *Time Banks UK*, these scheme's "main emphasis is in the social sphere - linking people together and building community - not in the economic sphere"[5]. However, I can see no reason why they shouldn't be considered as a supportive part of a local economy.

Currencies of printed local notes that can be traded to and from national currency

One such system is BerkShares, which were launched in September 2006. BerkShares are a local currency designed for use in the Southern Berkshire region of Massachusetts in the United States. BerkShares have printed notes that come in denominations of 1, 5, 10, 20, 50. These notes are brought into circulation when local people exchange US dollars for them at banks participating in the scheme. The advantage to consumers is that they receive 10 BerkShares for every 9 dollars. In this way, they effectively receive a 10% bonus for using the local currency, but this currency can only be spent in local businesses participating in the scheme. Businesses accepting the currency from customers can then use the BerkShares to buy supplies if possible, or pass them out in change etc. If a business can't recirculate all it's BerkShares, it can exchange them for US dollars again at the same participating banks, but it will only receive 90 cents to the dollar.

Totnes in Devon, UK has launched it's own currency also – called the Totnes Pound which operates in a similar way. However, the Totnes pound only has one pound notes and no other denominations, and it is not exchanged with banks, but within some businesses and in the 'Transition Town Totnes' office (the organisation that initiated the currency). Further, the amount of discount that a customer receives is 5% in Totnes (£9.50 buys 10 Totnes pounds). The Totnes currency is still in its early stages, having been launched in March 2007. However, some businesses have reduced the amount of pounds they will take per transaction to only one Totnes Pound, limiting the benefits to the local economy. The fact that there are only one pound notes obviously restricts use of the currency also.

Ideally, a balance will be found with the number of a local currency's notes in circulation, if people were to constantly 'buy' new local currency into the area to get their discount and none were ever returned for national currency, then the market would eventually be flooded with local cash and the currency would lose its value. Further, in reality, customers may not feel like they are receiving any discount as the smaller local retailers who participate in the scheme generally have higher priced goods than those in large multinational chains. Therefore, the system relies on the dedication of people consciously choosing to support local trade because they can see the broader benefits to their community, which is not necessarily sustainable.

The Wirtschaftsring

The Wirtschaftsring is a system of mutual credit in Switzerland open to small to medium sized businesses but not individuals. It originated in response to currency shortages in 1934, when local businesses decided to extend each other credit. The Wirtschaftsring now offers loans (which require credit checks and must be secured by collateral) in a currency equated to Swiss francs (Wir francs) but only spendable within the circle of participating businesses. The local currency is lent into the system in a similar way to that of commercial banks in the broader

[4] New Economics Foundation, 2001, p6
[5] http://www.timebanks.co.uk/faq.asp

economy. However, unlike commercial loans, Wir loans have service charges but do not charge interest. Further to this, Wir francs are not allowed to be traded into Swiss francs. The Wir credit committee has a policy of restricting the total value of loans to 1/3 its annual turnover to maintain the Wir's value.

Ithaca Hours

Ithaca Hours is a system founded by Paul Glover and launched in 1991 in the town of Ithaca in the USA using a printed local currency, of 'Hours'. One Hour is equivalent to $10, this being the perceived value of an hour's work. There are eighth, quarter, half, one and two hour notes. One Ithaca Hour is not always traded for one hour of work in practice, and people can set their own hourly rate for services. Ithaca Hours was inspired by LETS, but the printed currency was intended to reduce accounting problems and allow those not formally in the scheme to participate. This local money can not be exchanged back into national currency, keeping the local currency circulating more easily once it is in the system. Ithaca Hours enter into circulation in three ways. Firstly as payment to businesses for participating in the scheme (2 hours to join and when they renew), secondly as grants to local charities and finally as no-interest loans to local people and businesses. The largest loan in this currency was worth $30,000 USD[6].

Reward points: money as a tool to manipulate behaviour.

Reward points could be considered a type of currency, as they can be earned and spent. One earns points by engaging in certain behaviour, such as shopping in local businesses. The Community Rewards Program that I belonged to when I lived in Balmain in Sydney was one such program created to keep local shops viable as larger companies opened outlets in the area[7]. Customers were issued with a plastic card which could be used to accrue points every time you shopped in a participating store, the same card could also be used to redeem your points in these stores. In Rotterdam in the Netherlands, a rewards system called the NU-spaarpas has been established that allows people to earn points for buying from businesses selling 'sustainable' goods and services, as a way of rewarding ecologically responsible choices. Further to this, behaviour such as taking your waste to recycling centres is also rewarded (earning points that can be spent buying second hand furniture in the store run by the waste company). The NU-spaarpas initiative works with local government as well as businesses. Such a system has potential for changing behaviour, and indeed, according to the organisation's web site, this is a primary objective.

What Part Can Local Currencies Play in Building a Healthy Economy?

My reflections on how the local currencies described may help build a healthy economy follow. Please bear in mind that I have no training in economics and hence I encourage you to also reflect for yourself on how local currencies may help (or not).

Money serves three basic functions:

1. as a store of value (for savings)
2. as a means of exchange (for barter)
3. as a unit of account (to compare turnover from year to year etc.)

Local currencies act best as means of exchange, they can act as a unit of account also, but as they do not necessarily keep their value and do not earn interest so will slowly lose value with respect to the national currency (in our current economy) if stored. Obviously then, they do not make a good store of value in the world today. They may not provide a good unit of account either, as things that do not keep their value do not make the best unit of account.

Local currencies can form one part of a web of currencies in a healthy economy, with different systems used in different regions to suit the needs of the local area. However, they do not fulfil all the requirements we have for money and cannot address all the flaws in the current capitalist system. Just as biodiversity builds resilience in an ecosystem, so too perhaps currency diversity builds resilience in an economy. Certainly throughout history it has been in times of economic stress that alternative local currencies have sprung up to keep local businesses trading. As we reach the end of an era of cheap energy, these systems may become more attractive to communities. Richard Douthwaite sees as many as four or five currencies in operation together within a country,

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[6] http://www.ithacahours.com/

[7] see www.communityrewards.com.au for more details

each fulfilling different functions or operating on different scales[8]. Douthwaite also feels that until people can pay taxes in local currencies, they will not be able to become substantial parts of the economy.

Local currencies can also:

- Foster an economy of relationships rather than transactions as *local* businesses trade with each other more
- Open discussions around all the issues raised in this essay (even if the currency does not persist in the community long term)
- Help localise resource use, reducing the need for transportation, and thus reducing carbon emissions.

When looking at the specific problems of our dominant economic model raised earlier, I offer the following reflections:

Growth for Growth's Sake
Local currencies do not earn interest, neither do their loans charge interest (as far as I know). Therefore growth will not be forced by the need to find interest to repay loans. Further to this, as far as I know, local currencies are not used for speculation and stay far better tied to the 'real' economy. However, injections of local currency into an economy can initiate flourishes of activity, and flourishes of activity often involve increased use of resources. Further, earning rewards points for shopping locally may actually incentivise increased consumption.

Abstraction of ownership (shareholders who have no connection to company operations)
The impetus to establish local currencies has often also been out of a desire to protect against large, shareholder owned companies draining the profits out of the area and undercutting local business and industry on price with their use of cheaper foreign labour markets. It is the case that publicly traded companies may find it difficult to enter into a local money scheme if it was not considered to be in shareholder's interests. Local currencies are often designed to foster locally owned businesses where the owners are a part of the communities and ecosystems in which their business is operating. Theoretically, this will lead to more ethically sound business practices by keeping owners more in touch with the reality of the decisions their company takes. Each local area may need different economic tools, but in a healthy economy they should all have the autonomy to respond to their own needs without being tied into larger dominant systems where decision makers are abstracted from the communities and ecosystems that they affect. Local currencies can help build such autonomy.

Arrogance of Ownership (the owner is superior to the owned)
Generally, local currencies do not directly deal with this problem. For example, a person can still log an old growth forest, make outdoor furniture with the timber and sell it for a local currency. The only system mentioned which deals directly with this issue is the NU-spaarpas which rewards people who purchase from companies that embrace ethical practices. If consumers are left to make ethical choices without any prompts, this requires them to be fully educated about all ecological issues involved with every product choice, and few people are motivated enough to research each product to this extent. However, a system such as Nu-spaarpas could be open to 'greenwashing' and consumers would be wise to check into the standards that any such company is applying to judge products and behaviours as 'sustainable' before participating. Barnes' suggested 'commons trusts' are an alternative for dealing with this problem.

Peter Barnes said to us in one of his lectures that money is a way of encouraging people to do some things and discouraging them from doing other things. I instantly bristled at the idea of this sort of manipulation, but if this is considered from the perspective of complexity theory, then we see that iterations of certain behaviour build certain patterns, and any economic system will encourage certain patterns and discourage others. Whilst there is freedom of the individual in a complex system to do as they will, certain forces are acting on them. It is difficult to say when launching an new currency or incentive if it will act as forces shaping our iterative spending behaviour into more healthy overall patterns. The emergent properties a complex system generates have proven to be

[8] These being an international currency, national currencies, local currencies and store of value currencies. See Chapter 4 of Douthwaite's book *The Ecology of Money* for more details.

inherently scientifically unpredictable[9]. We would have to 'keep and eye' on the patterns and emerge and be willing to adjust our economic model accordingly.

Questions of scale

Generally local currency systems facilitate trade on a local scale only, promoting local autonomy and helping prevent large companies monopolising an industry. Interestingly, one of the largest LET systems ever operating, in Katoomba, Australia found that as their scale grew (to over 1000 members at one stage, including some local businesses), the system became too anonymous. As this was not what they wanted from a LET system, they then looked to form sub groups in each town involved to re-personalise their trading[10].

Some of these systems (such as CES, a LET type system in South Africa) have started to network outside of their local area, facilitating trade between people in different parts of the world and enabling whole communities to be running at a deficit or surplus with respect to other communities (according to Tim Jenkin of CES, see Appendix 1). In my opinion, this negates benefits of keeping currency trading locally and, as an exchange rate is used between communities, it opens the door to spending in an area with weaker currency, but selling in areas with stronger currencies.

Closing Comment

In conclusion, local currencies may have many benefits to offer a community, but overall it will be down to each individual community to decide for themselves what type, or even if a local currency is right for them as they look for ways to build a healthy future.

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[9] Reason and Goodwin, 1999, p288

[10] Douthwaite, 1996, Chapter 3, p 6

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Appendix 1

E-mail correspondence from Tim Jenkin of CES in South Africa

Dear Sophia

The CES works in pretty much the same way as the conventional global economy. If you earn federal dollars in Australia you can spend them there or somewhere else after converting them into a local currency.

Likewise if you earn credits by selling or doing something for members in your local LETS group you can spend them there or if you come here to Cape Town, South Africa, you can spend them here. The seller in Cape Town (who has provided you with accommodation, say) would credit him/herself and debit you. The provider's account here in Cape Town would go up and your account in Australia would go down.

As your LETS group probably bases the value of its currency on the Australian dollar and our exchange here bases it on the South African Rand, a 'conversion rate' would be applied to convert the one currency into the other. Thus if the price of the accommodation here was 500 units per night your account would be debited 100 units per night (assuming the conversion rate is 5:1).

Trading between members worldwide is as easy as trading with someone in your own exchange. The system deals with all the complexities, making trading very streamlined, seamless and problem free.

There are already 15 Australian LETS and time-based groups on the CES, and they are trading with each other and with other CES groups worldwide.

In the same way that individuals can be in credit or debit, entire exchanges can be in credit or debit in relation to the whole. This is another way of saying the 'balance of trade' of a particular exchange can be in surplus or deficit.

The way the CES handles inter-exchange trade does not mean that credits 'leave' your exchange to go to the other exchange to 'pay' for something bought from afar. If that were to happen the sum total of member balances would not add up to zero and there would be an imbalance in your group's accounting. The CES isolates the exchanges at the accounting level by using a system of virtual members that have accounts in all exchanges. Think of it as yourself having accounts in two LETS groups and therefore being able to 'sell on' goods between a seller in the one group and a buyer in the other. In the selling group the accounting would be between the actual seller and you and thus no credits would 'leave' the group. In the buying group the accounting would be between you and the actual buyer, again keeping the accounting balanced. By using virtual members there are no transfer fees and other hassles normally associated with real, live humans!

Hope that helps! If your LETS groups wants to trade with other LETS groups, both in Australia or abroad, then there is no better way to do it than through the CES network. There are now 80 exchanges in the network and it is growing all the time.

Regards

Tim Jenkin
CES Administrator.

----- Original Message -----
From: "Sophia van Ruth" <sophia@spin.net.au>
To: <sane@iafrica.com>
Sent: Wednesday, February 06, 2008 3:09 PM
Subject: query about CES

> Dear SANE people,
>
> I have an enquiry about the international network of complementary
> currency exchange. I was wondering if you could tell me, with
> international exchanges, if I was in an Australian LETS system, and I use
> a CES offering for example, would that CES member then have earned CES
> credits or would they have to spend their credits back into the Australian
> system within which they had offered the goods/service.
>
> Thanks so much for your time,
>
> Sophia van Ruth