Local Liquidity

From Ineffective Demand to Community Currencies

Molly Scott Cato

Green House is a think tank founded in 2011. It aims to lead the development of green thinking in the UK.

Politics, they say, is the art of the possible. But the possible is not fixed. What we believe is possible depends on our knowledge and beliefs about the world. Ideas can change the world, and Green House is about challenging the ideas that have created the world we live in now, and offering positive alternatives.

The problems we face are systemic, and so the changes we need to make are complex and interconnected. Many of the critical analyses and policy prescriptions that will be part of the new paradigm are already out there. Our aim is to communicate them more clearly, and more widely.

We will publish a series of reports and briefings on different subjects. We do not intend to have a party line, but rather to stimulate debate and discussion.

Lorton Barn, Lorton Lane, Weymouth, Dorset DT3 5QH, United Kingdom.
+44 (0)1305 816514
info@greenhousethinktank.org
http://www.greenhousethinktank.org

You can download this publication from
http://www.greenhousethinktank.org/page.php?pageid=publications

ISBN 978-0-9573738-0-8
Print copies of this publication may be bought online from http://www.lulu.com/.

Existing Green House Publications

Sustainability Citizenship by Andrew Dobson

Mutual security in a Sustainable Economy: a Green Approach to Welfare by Molly Scott Cato and Brian Heatley

The Dog That Didn't Bark: When banking crises did not occur and what we can learn from that by Thomas Lines

Guardians for Future Generations by Rupert Read

Free Universities: Re-configuring the Finance and Governance Models of the UK Higher Education Sector by Molly Scott Cato

Green House's 'post-growth' project: an introduction by Rupert Read

Offsetting Nature? Habitat Banking and Biodiversity Offsets in the English Land Use Planning System by Mike Hannis and Sian Sullivan.

Strangled by the Duopoly: The collapse of UK Democracy, 1975-2012, and some proposals for its revival, by John Hare and Rupert Read.

Local Liquidity: From Ineffective Demand to Community Currencies by Molly Scott Cato

Forthcoming publications

Taking Shelter from the Markets: Some Answers to the Food Price Crisis by Thomas Lines

See the next page for the Green House Post-Growth project.

All existing Green House publications can be downloaded free of charge from our website at http://www.greenhousethinktank.org.

Green House Post-Growth Project

Everyone agrees that we are in the midst of a massive financial and economic crisis. We have suffered the biggest 'crash' since the '30s, and it may get far bigger yet. How ought this ongoing crisis to be understood, and resolved?

The mainstream view: we have vast government deficits, and stagnant economies. We have a dire need for economic growth – and a deep-set need for austerity, bringing with it massive cuts in public services.

But what if that diagnosis, which reflects mainstream wisdom, is all wrong? What if the crisis that we are currently experiencing is one which casts into doubt the entire edifice of capitalist economics, which sets growth as the primary objective of all policy? What if the fight between those who say that without austerity first there can be no growth and those who say that we must invest and borrow more now in order to resume growth is a false dichotomy - because both sides are assuming 'growthism' as an unquestioned dogma?

The aim of the Green House Post-Growth project is to challenge the common-sense that assumes that it is 'bad news' when the economy doesn't grow and to analyse what it is about the structure of our economic system that means growth must always be prioritised. We need to set out an attractive, attainable vision of what one country would look like, once we deliberately gave up growth-mania – and of how to get there. And we need to find ways of communicating this to people that make sense, and that motivate change.

Existing Green House Post-Growth Project Reports

Green House's 'post-growth' project: an introduction by Rupert Read

Forthcoming Green House Post-Growth Project Reports

Joined up Economics: The Political Economy of Sustainability, Financial Crises, Wages, Equality and Welfare, by Brian Heatley

Industrial policy and infrastructure – the depth of the challenge of a green transition – Jonathan Essex

Can't Pay; Won't Pay: Austerity, Audit and Odious Debt – Molly Scott Cato

Post-Growth Politics – Andrew Dobson

The Paradox of a Green Stimulus – Molly Scott Cato

Sustainability Means Equity: The central role of co-ops in a post-growth economy – Mary Mellor

A new post-growthist common sense – challenging the hegemony of growthist discourse – Rupert Read and Matt Wootton.

Table of Contents

The author

Molly Scott Cato is a green economist and expert in the social economy who specialises in the issues of trade, work, money and cooperatives. She is Professor of Strategy and Sustainability at the University of Roehampton and has a PhD in economics from the University of Wales, Aberystwyth. Molly studied Politics, Philosophy and Economics at Oxford University.

Acknowledgments

The author is grateful to other members of Green House for their comments on an earlier draft of this report, and to Linda Whitebread for proof reading and final editing.

Summary

Since the failure of the global financial system in 2008, attempts to restart economic growth have been unsuccessful and are likely to remain so until the debt overhang has been resolved.

This has been exacerbated in the case of local economies by the large-scale withdrawal of liquidity that the public spending cuts represent, especially in peripheral economies that rely heavily on the public sector for the existence of well-paid high-skilled employment.

The flourishing of local currencies across the world represents a different type of liquidity, but one that has suffered from lack of credibility and from an absence of political support.

Local authorities could generate truly 'effective demand' in their communities by introducing local currencies into their fiscal administration on a staged basis, beginning with local services, as partial payment of local tax, and eventually for the payment of staff.

Examples from Japan's lost decade demonstrate how local currencies can help to replace the national currency and soften the blow of jobs losses and the inability to pay for local services.

Local currencies tend to be counter-cyclical, as shown by the historic flourishing of scrip in the US Midwest during the Great Depression and similar schemes in Germany.

The government's creation of money through its quantitative easing programme has only created 'ineffective demand' because it has been sucked into banking debts; by contrast money spent into the local economy as a local currency could help to revive local economies and build resilient communities and thus constitute genuinely 'effective demand'.

1. Introduction

The debate over the increasingly desperate attempts to restart the growth engine of the UK economy is deflecting debate from the rather obvious point that, if we stop quibbling over the odd tenth of a percentage point, the UK economy has ceased to grow. This has been the reality for several years now, and is a natural economic response to the bursting of the credit bubble. Our economic woes began as a failure of liquidity. In response to the crisis in credit, the government poured a vast but unfathomable sum into the banks, thus diverting it from creating effective demand in the economy. Whether or not you believe that cutting the public sector will strengthen or weaken the economy, in the immediate future it will lead to a massive reduction in demand. What we propose in this paper is that local government can intervene to replace some of this demand that has been removed by the cuts in public spending. We suggest that support for local currencies offers them a way to do this.

Beneath the radar of the mainstream media there is something of an economic revolution taking place. All across the world, in countries with widely contrasting economies and levels of wealth as conventionally measured, citizens are taking control of the medium of exchange and issuing their own money. Such currencies have a history of flourishing at times and places where there is a failure of demand, as in the US during the Great Depression and in Japan's lost decade. The paper is based on the insights from an international conference held in Lyon with the support of the local Rhone-Alpes regional authority and the University of Lyon, between 16th and 18th February 2011.[1] The conference was attended by community organisers, politicians, green economists and other academics from the more than 50 countries around the world where community currencies exist, including Brazil, Argentina, Japan, Switzerland, Germany, France, the Netherlands and the UK.

This paper is both a report of what local currencies can offer and also a challenge to our own locally elected representatives. The financial crisis of 2007-08 was primarily a crisis of credit. This has now resulted, in a similar pattern to that following in 1929-32, in a full-scale economic crisis and a contraction of economic activity. This is disastrous for the national economy, and particularly damaging to local economies that are already peripheral. In this context, we argue that a proactive attitude towards community currencies by the local authority can make all the difference, protecting jobs, safeguarding social well-being, and shifting the economy permanently towards a more resilient future.

2. The Variety and Design of Local Money Systems

Since the bursting of the finance bubble in 2007 it has become something of a truism to say that we are in the most serious economic crisis since the Great Depression. That crisis gave rise to a huge wave of innovation, of which some of the most fascinating and yet often overlooked is innovation in the area of credit and finance. In the US, where the Depression was deepest and lasted longest, *'communities from coast to coast attempted to encourage consumption and alleviate unemployment by issuing their own forms of money'*.[2] This money became known as 'scrip' and was issued by local authorities to finance their own expenditure, and then accepted back in tax. These currencies were designed in different ways, some being funded from a local purchase tax that required users to buy stamps each time they used the money, others being funded from anticipated tax revenues.[3]

It has been estimated that as much as one billion dollars' worth of these local currencies may have been created during the Depression years and that at its most widespread, in about 1933, the movement involved up to a million people. Not all of the 450 groups involved issued actual paper money or coin, some merely recorded transactions, but '*it is clear that some sort of scrip was issued by several hundred municipalities, business associations, companies, banking organizations, barter and self-help cooperatives, and production units of the unemployed.*'[4]

The recent wave of community currencies began with the Local Exchange Trading Schemes (LETS) which took off in the UK in the 1990s. As Peter North, who has studied local currency schemes across the world, notes, *'A LETS scheme is really just a network of people who agree to share their skills with each other by means of a local currency that they have created and agreed to use'*.[5] Many of these LETS schemes were highly successful in enabling people without access to job opportunities or who had a shortage of pounds sterling to be part of a flourishing local exchange system.

These were followed by a huge growth in currencies in Japan, where the stagnation of the economy in the 1990s and 2000s led to a proliferation of currencies with a wide variety of designs and purposes.[6] The Japanese currencies are a good example of how different types of money can be very important to an economy in recession. The Japanese economy has seen only sluggish growth and at times declines in the level of economic activity for much of the past two decades. In a country with such a strong work ethic this has led to considerable social problems, including mental illness. Local currencies have provided a way for people to work and make a contribution to their local community even when conventional jobs paid in the national currency are not available. In this way many social needs have been met that would otherwise have been left unresolved.

Japanese local currencies tend to be designed as coupons which are received in return for voluntary work and can then be spent in local shops.[7] They have a long history and are widespread. The first Japanese currencies were organised as 'voluntary labour banks' similar to time dollars. In 2001 these were joined by 'eco-money' designed by former

MITI employee Toshiharu Kato. Eco-money circulates within a locally defined area and is used to support environmental, social welfare, education and cultural activities.[8] In Japan, due to the prolonged period of failure of effective demand, both local and national authorities have been supportive of local currencies, and they can be used to pay for administrative services from local authorities in some areas of Japan.[9]

More recently, community currency schemes have grown up around Europe. They have been particularly successful in Germany and Austria where there are 73 local money systems known as *Regiogeld* or 'regional money'. The design of these local currencies is given in detail in case-study 1 about the most successful example: the Chiemgauer. In total these regional currencies have put some €750,000 equivalent into circulation, providing an important stimulus to their local economies.[10]

Case-study 1. Chiemgauer

The Chiemgauer was launched in the Salzburg town of Chiemgau in 2003 and is accepted by around 150 shops and service providers including the optician and pizzeria. Chiemgauers to the value of €60,000 were spent in the first year of the scheme, which was started by a local economics teacher. To add credibility the currency is effectively backed one-for-one by euros, since the money is bought directly in exchange for the European currency, which is deposited in a local bank before Chiemgauers are issued. They can be exchanged back but for a 5% fee.

The Chiemgauer uses Silvio Gesell's concept of demurrage to increase its velocity of circulation. Gesell observed that part of the reason for the German deflation in the 1930s was that money was not circulating rapidly enough because people believed it would increase in value if they held on to it because of its role as a store of value as well as a circulating medium. His concept of demurrage is like negative interest, so that money slowly loses its value over time, creating an incentive to increase the number of times it is spent in a fixed period of time. In the case of the Chimegauer this is achieved by effecting a staged reduction in its face value over time. It has initial validity of three months, after which its value can only be extended by purchasing a stamp costing 2% of its value. Since it earns no interest there is no incentive to hoard or invest, meaning that the currency will instead be spent, increasing economic activity. Money generated from the extension and exchange charges is used to fund local social projects.

The Chiemgauer is now very widely used. It has 600 shops participating in the scheme, 1800 consumer members and 200 charitable associations who receive donations every time the local currency is purchased. Around 430,000 Chiemgauers are in circulation, generating a transaction volume value of more than €4m.

More information: http://www.chiemgauer.info/

3. Typology of Money Systems

The proliferation of local money systems in the past three decades has led to a wealth of research studies and other guides to the design and implementation of such systems. Jerome Blanc has divided the currently existing forms of community currencies into four types:[11]

- unconvertible community schemes like LETS and the Argentinian *trueque*;
- pure time exchange schemes, such as the Stroud and Stonehouse Fair Shares systems;
- convertible currencies with local economic objectives, such as the UK Transition currencies and the Chiemgauer; and
- multiplex schemes like the NU-Spaarpas (see case-study 3).

We will briefly consider each of these schemes in turn; case-studies of schemes falling into the various categories can be found throughout the body of this report.

The first question that must be considered when creating money is whether it is to be backed by something of value, whether perceived or actual. Ideas of the gold standard still rest in the public imagination, although legal tender today has no backing beyond the confidence of borrowers in the power of the national state to ensure that debts undertaken in it will be repaid. Money created without backing by official authorities in this way is known as 'fiat' money from the Latin word for 'let there be' (as in *fiat lux*: 'let there be light'). As the discussion of scrip issue in Section 2 makes clear, local authorities can create money in this way. It will be trusted because the local authority has exactly that: authority, and the trust of local people. Local Exchange Trading Schemes (LETS) like the system that flourished in UK in the last decades of the 20th century are clearly based on trust, this time arising within a community rather than from political authority.

Time banks are systems where the money is derived directly from people's time.[12] Time banking and Edgar Cahn's time dollars are primarily concerned with the social consequences of the conventional money system, as illustrated in the title of Cahn's book *No More Throw-Away People*. He emphasises the importance of the core economy (which deals with basic needs for care and support) and failure of the money economy to provide for basic needs and create employment. Cahn argues that the core economy is more efficient than the market economy in some of the most important areas of life: caring for children and old people and building a strong community. It relies on building self-sufficiency rather than specialisation; bases distribution on need rather than the market; and rewards psychologically rather than in money. The core economy suffers the impact of the 'externalities' generated by the market economy: restoring and nurturing it will reduce their environmental impact.

"Co-Production economics necessitates a kind of ecological awakening about the non-market [or core] economy. It illuminates externalities that are as critical as

those that threaten bio-diversity, deplete the ozone layer, pollute the air we breathe, and contaminate the water we drink."[13]

Much of the emphasis with time-banking is on the social consequences of the money system in excluding certain types of people from the community, and marginalising certain types of activity which is outside the market and therefore does not feature in considerations of the economy, narrowly defined in money terms. Money based on people's contributions and denoted in terms of the time they expend can help to create a more inclusive economy:

"Time as a universal, constant and equally distributed element cannot be shortened, lengthened or speculated with. Each person's time ticks at the same speed as every one else's. Each person has the same amount of hours in a day as the other. Time is the great 'equalizer'. As a fixed standard, anyone's reference to it is the same."[14]

A recent survey from one Time Bank in the USA clearly illustrates the benefits and weakness of such systems. Collom surveyed a bank that has 500 members, around half of whom responded to the survey.[15] He found that they were highly homogeneous being mostly female, white, highly educated and sharing 'liberal' values. Unlike the criticism in some LETS schemes, the members of the time bank were in genuine financial need, although they were also motivated by the desire to contribute to the community rather than benefiting financially from the scheme. Collom concludes that time banking and LETS, can both be characterised as 'anti-capitalist', 'green' and 'alternative'. For other academic commentators, LETS and time banks are important not so much for their radical potential but because of they can play a role in 'encouraging participation in community volunteering, particularly by socially excluded groups and by women and the elderly'.[16]

The third form of local currency is one that derives its value from something else that is already valued. In many cases this is the national currency (as in the case of the Chiemgauer, which is exchanged one-for-one with euros) although there are also proposals to relate local currencies to energy or to features of the natural environment such as trees. In the latter case the money is issued when the tree is planted and then redeemed when the tree has grown to maturity and can be cut down and sold. As described below, the four UK Transition currencies follow the *Regiogeld* model in being valued at parity with the national currency. As they are issued an equivalent amount of the national currency is held in a 100% reserve, so that participants in the system know that they can 'get their money back' should confidence in the local currency system fail. This third type of system has a primarily economic motivation – such as encouraging greater health in the local economy – but may also have environmental benefits, such as reducing the distance goods travel before being sold in the market.

Finally we have what Blanc refers to as 'multiplex systems' because they involve a partnership between local governments, community groups and businesses. These systems tend to be the most complex and can therefore be costly to implement. They can operate in the form of points cards which can be loaded with value – perhaps when people volunteer time to clean up a local waterway or sort recycled material. This operates as an incentive to engage in environmentally friendly behaviour. Points can then be spent on local goods and services. The NU-Spaarpas (case-study 3) is an example of such a system.

Case-study 2. Spice

Spice is an NGO that has brought about a creative collaboration between the local authority and citizens to generate wealth from their own skills and by sharing these to improve the well-being of the whole community. Participants in the scheme contribute their time working on community projects, or with public services, and they then exchange the community credits they have earned on trips to local leisure and recreational facilities. The role of Spice itself is crucial here as the broker between the two parties: the public sector and the private individual. Spice determines current and new opportunities for people to contribute their time by liaising with public services and local community groups, guaranteeing that there will always be an interesting variety of ways in which people can contribute their time.

In return for this time participants receive 'credits' and Spice also finds opportunities for people to spend these credits by filling 'empty seats'. In Cardiff, participant service providers include leisure centres, theatres and cinemas, and the local rugby and ice hockey teams. They do not lose out by providing these resources free of charge, because they are excess, and would otherwise have remained empty. Participation in Spice allows local service providers to extend their customer base, and also increases income through secondary uptake, e.g. popcorn at the cinema. Spice brings the community together to realise these opportunities for cooperation, and acts as a trusted liaison point between the two, the link that allows the system to work.

The Spice model allows for a creative partnership between public and private sectors, and it can also reduce council costs (Wales Assembly Government 2009). In the example of social housing, credits are earned by tenants for time that they actively contribute to residential activities. This includes community programmes such as organising social events, community support like childcare, and tenant participation in the association's representative bodies. In return they receive credits which can be spent on access to leisure and recreation facilities.

Spice, in partnership with Timebanking Wales, is now looking into the possibility of bringing such a scheme into healthcare provision, and is developing a pilot in Tredegar in Wales (the birthplace of Aneurin Bevan, who was the architect of the UK's National Health Service). Working together with local GP practices, they are discovering the most common health problems in the area, with a view to encouraging greater community involvement in support groups and active classes for these conditions, with participants rewarded as described above. It seems as though the possibilities of time-banking, in partnership with the public sector, are endless.

More about Spice: http://www.justaddspice.org/

4. Money Circulation and Recession

The theory of community currencies is that they will provide counter-cyclical support to aggregate demand, which is by definition weak during the low phase of the business cycle. From a theoretical point of view, the focus of theorists of local currencies is primarily on circulation, the number of times a currency is spent within the local economy before it leaves, usually through being deposited in a bank. This is clearly visible in the work from the New Economics Foundation into the LM3 process to attempt to quantify the value of the local multiplier.[17] Minozzi and Parisis have demonstrated this using an economic model to test whether introducing a system of demurrage on a currency would increase its circulation, and thus increase aggregate demand within the local economy.[18]

These theories relating to the importance of currency circulation arise ultimately from the quantity theory of money developed by Irving Fisher whose equation:

$$MV = PT$$

makes clear that the equality that summarises the life of an economy is money (M) multiplied by its velocity of circulation (V) is equivalent to the volume of transactions (T) at the prevailing prices (P).[19]

The idea of demurrage, a form of negative interest or charge for hoarding money, was introduced by the German economist Silvio Gesell. His aim was to create a form of money he called 'Free-Money' whose supply was determined socially and which exactly matched the amount of economic activity in the local economy. This was to counteract the way that existing money systems enable the extraction of value through speculation and the earning of interest, and the way that this creates economic instability and has an inherent tendency to depress the amount of economic demand. Gesell set three objectives for his new currency design: that it should 'secure the exchange of goods' so that there were no boom-and-bust cycles; that it should accelerate the rate of economic exchange within a defined local economy; and that it should close the value gap between producer and consumer, to avoid profiteering by middlemen.[20]

To ensure the rapid circulation of this money Gesell suggested that, rather than people being rewarded for holding money through interest, they should be charged for holding it, a process he called 'demurrage'. Gesell's theories strongly support the design of Germany's *Regiogeld* or 'regional money' systems, which have been influenced by them. His objectives of removing profiteering and economic instability and supporting the local economy within which the regional currency is accepted could prove beneficial to the local economies of the UK that have been so devastated by public spending cuts. The Japanese circulating coupon currencies use a similar principle to increase the velocity of circulation. In this case, rather than using demurrage, they are time-limited, so that those who receive them in return for community work have to spend them within a limited time period.

The growing interest in complementary currency systems at the present time is unsurprising since, as suggested by theory and by historical experience, they are a counter-cyclical alternative to national currency. We would argue that the efforts by communities to create their own money to replace that which was destroyed during the credit crisis, and the additional loss of local economic demand as a result of public spending cuts, should be supported.

Case-study 3. NU-Spaarpas

The NU-Spaarpas systems was launched in the city of Rotterdam in the Netherlands in 2002. It is based on an electronic card which works like a supermarket points card but, instead of accumulating points in line with your purchases, you receive them in return for environmentally friendly behaviour. The scheme thus acts as an incentive towards sustainable behaviour and sustainable consumption. The scheme was established as a partnership between the Rotterdam Municipal Authority, the financial mutual Rabobank and the NGO Stichting Points. According to the designers of the scheme, as well improving sustainability and quality of life at the local level, the '*NU card is also attractive to those who think systematically about the changing role of the government and who are looking for appropriate instruments.*'

The NU-Spaarpas system offered different benefits to different sectors of society. Consumers benefited by being rewarded for their environmentally friendly behaviour. The designers targeted the scheme especially at the consumers 'in the middle' (which they thought to be about 55%), who were fairly concerned about the environment but did not go out of their way to recycle or consume sustainably. The scheme gave them an incentive to change their behaviour and, because they are a majority of the population, this shifted average behaviour by a large amount. As for business, companies that offer environmentally friendly products, or whose business is ecological, had a means of making themselves distinctive in the eyes of consumers. Local government benefited through the improved behaviour of citizens, which in many cases resulted in considerable savings.

The NU-Spaarpas scheme was expensive to set up and was funded with European money as well as by the Rotterdam council. However, software advances have meant that such a scheme could be established more cheaply today. As well as providing well-being and environmental improvements, such as scheme can also result in major savings to local authorities. As an example, in the Netherlands councils pay €70 per tonne to dump waste in landfill. I f citizens recycle their waste this falls to €10, plus the €3 for the points they receive as an incentive.

More information: http://www.nuspaarpas.nl/

5. Local Currencies and Local Politics

The ability to create money is a fundamental source of economic authority, so it is unsurprising that it is tightly controlled. However, the monopolisation of the right to issue credit by the central state is fairly recent (1844 in the UK) and many local museums have copies of notes printed by local banks. The first issue of the Totnes Pound used the design of such a note: several hundred of these were issued and spent without challenge. The crucial difference is between money issued by a bank, which relies on the authority of that bank, and the legal tender which is acceptable by the government for the payment of taxes. Local pounds issued in the 17th and 18th centuries depended on the security of the banks that issued them: those banks frequently collapsed with disastrous consequences for those holding their notes or who had deposits with them.

This is not what we are suggesting here. Rather we are suggesting that local authorities either produce or promote local currencies to support economic activity and to facilitate exchange. This is exactly the route taken by many US states during the Depression when they issued what became known as 'scrip'. Scrip sometimes had a direct relationship with the local taxation system, as in the case of stamp scrip, where the stamps could generate an income for the local authority. The system recognised the fact that money is another local service that people need in a complex economy – and should be prepared to pay for. It was sometimes call 'tax anticipation scrip' in recognition of the fact that the money system provides the fiscal support for local services.

In the case of Argentina, following the collapse of the peg between the dollar and the peso in 2001, the country was desperately short of liquid cash, to the extent that major corporations were accepting barter payments for their goods.[21] A variety of forms of IOU and payment-in-kind were acceptable as everyday payment. The global barter networks (*Redes global de trueque*) flooded in to fill this gap, but over time local authorities also produced their own currencies that they guaranteed within the areas of their jurisdiction. Before long, state governments were issuing their own currencies known as *patacones*, including in the province of Buenos Aires.[22] It is this model of the local authority filling the liquidity gap that we are proposing in this paper.

In the UK context we have seen the acceptance on the part of the monetary authority, the Bank of England, that the liquidity crisis requires action. However, the policy of quantitative easing has not been effective, because the money has been used to buy back corporate and mainly national debt. It has thus not been sucessful in creating effective demand and in particular has done nothing to support economies far from the financial centre of London. Other national governments, such as those in Japan and Australia, have used the money created by quantitative easing to increase the incomes of citizens, who then spend it into the economy, providing an economic stimulus.

But can local authorities realistically replace this role of creation of liquidity? This is clearly a significant power which is currently exercised by banks on behalf of the national government. For local authorities to exercise it locally would constitute a major power shift. We should make it clear that we are not suggesting here the usurpation of the power to create legal tender, but instead a movement in support of efforts by local community actors to defend their economy against the recession. The most obvious way in which they could do this would be to accept local community currencies in payment of taxes, in whole or in part. This would immediately underwrite the value of the currency and increase its credibility.

This is what is particularly exciting about the development of the Bristol Pound, whose organisers have managed to establish a close working relationship with their local authority, Bristol City Council. The Council's website claims that:

'The council will be allowing business rate and contract payments to be made electronically in Bristol pounds through the Bristol Credit Union. In addition, council staff will be able have some of their monthly salary transferred into a Bristol pound account with this credit union. We would also like other employers to consider allowing their staff to be paid part of their salary in Bristol pounds.'

This boosts the local community bank, the Bristol Credit Union, as well as ensuring political back-up for the local currency. It may provide the boost that enables the Bristol Pound to compete with sterling in this pioneering city. Member businesses can pay their local taxes in the local currency via the Bristol Credit Union, who will convert Bristol Pounds to GBP sterling and then make payment to Bristol city Council via BACS. Bristol Pound is also running a payroll deduction scheme and encouraging employers to pay a small proportion of their staff salaries in the local currency.

As demonstrated by some of the case-studies, there are several ways in which local authorities can support local currencies, either directly or as part of a partnership. In the case of the Nu-Spaarpas example from the Netherlands, the currency was given as a reward for behaviour that would save the local authority money, but they did not themselves accept it for local taxation. There are three stages we might propose for the integration of local currencies into the local fiscal system.

Stage 1 would involve local authorities working with community groups who pay volunteers in a local currency if they undertake work of social or environmental value. This might be work that cannot currently be paid for in national currency and so does not get done. The community groups could then negotiate with providers of services, who could make these available for the local money when they are not otherwise needed. This is the Spice model and can help to stimulate local activity. Local authorities could make their own services, such as leisure facilities or marketing trading permits, available for sale – in whole or in part – in the local currency.

The second stage would be for a local authority to accept a local currency in payment of a proportion of local tax. They would then be obliged to pay for some services in the local currency, and this would narrow the range of contractors who they could engage. It would also ensure that they keep their contracts beneath the limits that attract the strictures of the EU procurement legislation. This would provide a huge boon to local economies, since large volumes of local currencies would circulate and it would ensure that all local businesses would be able to take the currency, knowing that they could use it to pay their taxes. The possibilities in terms of local taxation are likely to expand now that the Localism Act has given local authorities more direct control over the business rates that they garner.

The third stage would be when local authorities pay the currency out to their own staff. While for some staff a local currency might have a lesser value than the national currency, when many jobs are being shed by local authorities because they cannot fund them using national money, they might feel inclined to create jobs paid specifically in the local currency. This would result in the creation of local money that would then be seeking goods in the local economy and would provide considerable support to local businesses that were prepared to accept the local money. Significant proportions of the local economy could be shifted out of the national currency altogether, leading to the end of the competition for liquidity between global speculative exchanges and local economies.

These are radical proposals and would completely change the relationship between local citizens, their political authority, and the global economy. While the ideal would be an empowerment of local authorities and a boost for the creation of resilient and self-reliant local economies, there might also be unpredictable consequences, hence the suggestion that local authorities move in a cautious and staged manner towards full acceptability of the local currency.

Case-study 4. Banco Palmas

In the context of the rapidly expanding economy of Brazil comes the example of Banco Palmas, a community bank that has been an effective tool of community development. Where previously unemployment was high and products that were made were sold in the cities for *reales*, most of which stayed with middlemen, now the community is providing for its own needs, using a local medium of exchange and keeping the whole value within the local economy.

The Conjunto Palemeira is a deprived town of 30,000 people in north-eastern Brazil. The town grew up as a result of squatting by urban migrants and has no facilities for sanitation, clean water, electricity or other public services. From the early 1980s an Association of Inhabitants at Palmeira Neighbourhood was established and in turn this group set up the Banco Palmas, which issues its own currency without being backed by the national currency. There are currently around 30,000 palmas in circulation (more than $15,000). The bank has six paid employees, who receive 20% of their salary in palmas.[1]

Banco Palmas makes small loans to local people which only circulate within the neighbourhood. Although they are very poor, this enables local people to create small businesses to gain an income to pay the loans back. The creation of currency has enabled the strengthening of the local economy and the creation of more than 1,000 jobs. It has also made the local economy more resilient, since more production now takes place within the community of Palmeiras itself.

More information: http://www.bancopalmas.org.br/

6. Redefining Effective Demand

Effective demand is a typical piece of rather unappealing jargon used by economist; however it is useful here because it can help us to clarify why our monetary system is failing, what local currencies might do to improve the situation, and how that could be achieved.

Let's start with what economists mean by 'effective demand'. The *Oxford Dictionary of Economics* clarifies: *'Effective demand is what is actually demanded, as contrasted with notional demand, which is what people would demand if all markets were in equilibrium. Effective demand thus excludes consumer goods people cannot afford to buy because they cannot get jobs, and investment spending for which firms cannot obtain finance.'* This makes it fairly clear that with money markets so far from equilibrium as those across the world in 2011, effective demand is a long way from notional demand.

The quantitative easing programme was intended to address the failure of demand that resulted from the lack of liquidity. However, I think we can conclude that what it achieved was to create 'ineffective demand'. Some of the money created in this way helped to reduce the size of our national debt, but much found its way directly into bank balance-sheets, where it was ineffective in filling the black holes that lurked there; or into the bank accounts of those who work in the financial sectors, where it fuelled consumption that has been ineffective in improving the economic situation for the country as a whole.

Green House, unlike the majority of commentators engaged in this debate, does not have a return to growth as a primary objective. For reasons explained elsewhere[23] we believe that the economy is at present outstripping the limits of sustainability and that a managed descent in our level of national consumption is essential. However, we do not see this as being inconsistent with suggesting a growth in support for community currencies. This is because we would argue that local currencies are precisely the sort of money that could create genuinely effective demand. There are a number of characteristics of local currencies that enable this:

- They are usually time-limited and so must be spent rather than hoarded;
- They increase the value of the local multiplier and thus can support the flourishing of the sorts of self-reliant local economies that a green economy will be based on;
- They can be specifically linked to involvement in local projects that have social and/or environmental benefit (as in the Nu-Spaarpas case-study).

Thus we would suggest that local currencies offer a flexible and timely opportunity for local government to reassert its role in supporting the social and economic needs of Britain's local communities. From the perspective of some of the country's peripheral regional economies, schemes such as Spice, which facilitates community involvement, could be shared. Currencies that have emerged as part of the Transition process, such as the Totnes, Brixton, Lewes and Stroud pounds, are motivated to support the building of more resilient local economies and have suffered from the very low rates of local production.[24] However, if they were to be accepted in payment of local taxes, as suggested above, this would certainly support the local shops whose demise has been accelerated by the economic recession. Using a currency to support specific socio-political objectives in this way could provide a welcome change to the way that local communities, and their elected representatives, have been starved of investment over the past 30 years.

7. Conclusions

From a green perspective, the building of a sustainable society requires a transition towards a system of self-reliant local economies, where the majority of our needs are met from genuinely local production. Green economists see the lengthy supply chains of the global economy as wasteful of energy, as well as leaving us vulnerable in the face of rising fuel prices and more unpredictable weather resulting from climate change. Rather than increasing growth for the sake of it, local currencies can shift economic activity out of the globalised economy and into the local economies on which we will all come to rely.

The rapidly growing body of evidence about local currencies indicates that their popularity is counter-cyclical, that is to say that they flourish in times of liquidity crisis, when there is not enough conventional money to support necessary economic activity, and shrink again when the capitalist crisis passes and the economy revives. This is true of the non-circulating currencies such as LETS and time-banks but particularly notable in the case of the scrip currencies that supported local economies in the US Midwest during the Great Depression and more recently during Japan's lost decade. In a globalised economy local authorities often feel powerless to act to support the economies which support their citizenry, but they are not. Local authorities across the world have the power to support local currencies and enable them to underpin struggling local economies of both production and distribution.

References

Blanc, J. (2011), 'Classifying "Ccs": Community, complementary and local currencies' types and generations', paper presented to the International Conference on Community and Complementary Currencies, Lyon, 15-18 February.
Cahn, E. S. (2004), *No More Throw-Away People: The Co-Production Imperative* (Washington, DC: Essential Books).
Cato, M. S. (2006), 'Argentina in the Red: What Can we Learn from Argentina's Banking Crisis?', *International Journal of Community Currency Research*, 10: 43-55.
Cato, M. S. (2008), 'Emancipation from Monetary Exploitation: Owen's Vision in Practice Around the World Today', in Cato, MS and Bickle, R (eds.), *New Views of Society: Robert Owen for the 21st Century*, Glasgow: Scottish Left Review Press.
Cato, M. S. (2009), *Green Economics: An Introduction to Theory, Policy and Practice* (London: Earthscan).
Collom, E. (2007), 'The Motivations, Engagement, Satisfaction, Outcomes, and Demographics of Time Bank Participants: Survey Findings from a U.S. System', International Journal of Community Currency Research, 11: 36-83.
Elvins, S. (2011), 'Sellling Scrip to America: Ideology, Self-Help and the Experiments of the Great Depression', paper presented to the International Conference on Community and Complementary Currencies, Lyon, 15-18 February.
Fisher, I. (1911/1922), *The Purchasing Power of Money, its Determination and Relation to Credit, Interest and Crises* (New York: Macmillan).
Gatch, L. (2006), 'Local Scrip in the USA During the 1930s: Lessons for Today?', paper presented at the Conference on Monetary Regionalisation: Local Currencies as Catalysts for Endogenous Regional Development, Bauhaus-University Weimar, Germany, 28-9 September.
Gatch, L. (2011), 'Tax Anticipation Scrip as a Form of Local Currency in the USA During the 1930s', paper presented to the International Conference on Community and Complementary Currencies, Lyon, 15-18 February.
Hirota, Y. (2011), 'Analysis of the Stagnation of the Development of Complementary
Gelleri, C. (2009), 'Chiemgauer Regiomoney: Theory and Practice of a Local Currency', *International Journal of Community Currency Research*, 13: 61-75.
Gelleri, C. (2009), 'Chiemgauer Regiomoney: Theory and Practice of a Local Currency', *International Journal of Community Currency Research*, 13: 61-75.
Gesell, S. (1929), *The Natural Order*: http://wikilivres.info/wiki/The_Natural_Economic_Order.
Kato, T. (2001), *The New Millennium of Eco-Money* (in Japanese) (Tokyo: Keiso Shobo).
Kurita, K., Yoshihisa, M., Nishibe, M. (2011), CC Coupon Circulation and Shopkeepers' Behaviour: A Case-study of the City of Musashino, Tokyo, Japan', forthcoming in *International Journal of Community Currency Research*.
Currencies in Japan', paper presented to the International Conference on Community and Complementary Currencies, Lyon, 15-18 February.
Maruyama, T. (2005), 'The Local Currencies and Robert Owen's Labour Notes', in Tsuzuki, C., Hijikata, N. and Kurimoto, A. (eds.), *The Emergence of Global Citizenship: Utopian Ideas, Co-operative Movements and the Third Sector* (Tokyo: Robert Owen Association of Japan).

Minozzi, P. and Parisi, U. (2011), 'The Integration of Stamped Money Issue into the General Equilibrium Models', paper presented to the International Conference on Community and Complementary Currencies, Lyon, 15-18 February.
Murphy, R. and Hines, C. (20), *Green Quantitative Easing: Paying for the Economy we Need* (London: Finance for the Future): http://www.financeforthefuture.com/GreenQuEasing.pdf
North, P. (2008), *Money and Liberation: The Micropolitics of the Alternative Currency Movement* (Minneapolis: University of Minnesota Press).
North, P. (2010), *Local Money: Making it Happen in Your Community* (Totnes: Green Books).
Sacks, J. (2002), The Money Trail: Measuring your Impact on the Local Economy (London: nef).
Sambeek, P. van and Kampers, E. (2004*), NU-Spaarpas, The sustainable incentive card scheme: An eighteen-month trial period in Rotterdam 2002-2003: background and results,* paper presented to the International Conference on Community and Complementary Currencies, Lyon, 15-18 February.
Sbattella, J. A. (2011), 'El rol de las Monedas Provinciales y la Soberanía Monetaria en Argentina', paper presented to the International Conference on Community and Complementary Currencies, Lyon, 15-18 February.
Serra, S. H. (2006), 'Establishing Time-Based Community Currencies: Means of Measure, Exchange and Storage', *International Journal of Community Currency Research*, 10: 56-67.
Seyfang, G. (2002), 'Tackling Social Exclusion with Community Currencies: Learning from LETS to Time Banks', *International Journal of Community Currency Research*, 6.
Theil, C. (2011), 'The German *Regiogeld* System and its Handling in Everyday Life', paper presented to the International Conference on Community and Complementary Currencies, Lyon, 15-18 February.
Wales Assembly Government (2009), *Time Banking: Public Service Delivery with Time Currency* (Cardiff: WAG).

Note

A resource centre of papers on complementary currencies from around the world is available here: http://complementarycurrency.org/materials.php.

Endnotes

[1] More details of the conference can be found on the website: http://conferences.ish-lyon.cnrs.fr/index.php/cc-conf/2011
[2] Elvins (2011).
[3] Gatch (2011).
[4] Gatch (2006), p.1.
[5] North (2010), p. 69.
[6] Hirota (2011).
[7] Kurita *et al*. (2011).
[8] Kato(2001).
[9] Kurita *et al*. (2011).
[10] Theil (2011).
[11] Blanc (2011).
[12] For more on the origin of time banking see Cato (2008) and Maruyama (2005).
[13] Cahn (2004), p. 44.
[14] Serra (2006), p. 6.
[15] Collom (2007).
[16] Seyfang (2002).
[17] Sacks (2002).
[18] Minozzi and Parisis (2011).
[19] Fisher (1911).
[20] Gesell (1929), pt. IV, ch. 2)
[21] Cato (2006).
[22] North (2008); see also Sbatella, 2011.
[23] Cato (2009).
[24] Calling for a support for effective demand while simultaneously pointing out the need to end economic growth seems to generate something of a paradox. To a green economist that paradox can be resolved by substituting local for global economic activity as will be explored further in the paper in Green House's Post-Growth Project *The Paradox of a Green Stimulus.*