Complementary Currencies:
Mutual Credit Currency Systems and the Challenge of Globalization

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Abstract

Complementary currencies—currencies operating alongside the official currency—have taken many forms throughout the last century or so. While their existence has a rich history, complementary currencies are increasingly viewed as anachronistic in a world where the forces of globalization promote further integration between economies and societies. Even so, towns across the globe have recently witnessed the introduction of complementary currencies in their region, which connotes a renewed emphasis on local identity. This paper explores the rationale behind the modern-day adoption of complementary currencies in a globalized system.

I. Introduction

Coined money has two sides: heads and tails. 'Heads' represents the state authority that issued the coin, while 'tails' displays the value of the coin as a medium of exchange. This duality—the "product of social organization both from the top down ('states') and from the bottom up ('markets')"—reveals the coin as "both a *token* of authority and a *commodity* with a price" (Hart, 1986). Yet, even as side 'heads' reminds us of the central authority that underwrote the coin, currency can exist outside state control. Indeed, as globalization exerts pressure toward financial integration, complementary currencies—currencies existing alongside the official currency—have become common in small towns and regions. This paper examines the rationale behind complementary currencies, with a focus on mutual credit currency, and concludes that the modern-day adoption of complementary currencies can be attributed to the depersonalizing force of globalization.

II. Literature Review

Money is certainly not a topic unstudied. Menger (1892) makes an early attempt to discuss money's origins, a topic more fully elucidated by Davies (2002). Braudel (1981) provides

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a succinct overview of the introduction of coined money throughout the world. Galbraith (1975) discusses more completely money's origins and the complications within monetary systems that have arisen in the 20th century. Beyond the origins and theory of money, Muller (1816) focuses on money's role in the community; for Muller, money "derives its value from the trust generated within a community and is more specifically an expression of the national will" (Hart, 1986). The topic of money and the community is more fully engaged in Simmel (1990). Simmel discusses how the use of money as exchange (supplanting barter) alters the social interaction between individuals: money decreases personal ties. The topic of scrip money has also found many interested parties; Harper (1948) and Brown (1978) discuss in depth the occurrence of scrip in different regions.

Most notably, Gesell (1958) explores stamp scrip. In Europe, Gesell "proposed and implemented 'Free Money,' a system of currency notes designed to 'rust' as other commodities of value would similarly decay, and so 'step lively' (circulate very quickly), enabling higher levels of trade and a higher local economic multiplier" (Seyfang, 2000). His currency, known as stamp scrip, needed to be stamped every week or every month in order for the note to retain its value. "Knowledge that the money must be spent before this deadline in order to avoid the need to purchase a stamp would encourage people to spend it rather than hoard it" (Tibbett, 1997). Fisher (1933) "took the idea to the USA, where his quantity theory of money showed that boosting trade could not be done by increasing the money supply (because people did not want to hold money): hence it was achieved by increasing the velocity of circulation of money instead" (Seyfang, 2000). Finally, the rise of complementary currencies alongside globalization is examined by Pacione (1997, 1999), Tibbett (1997), and Seyfang (2000).

III. Functions of Money

Accustomed as we are to the coins that rattle in our pockets and the notes that crease in our wallets, we often forget that money is a social construct and has occupied many forms

throughout the ages. Monetary uses have been delegated to such material as bricks, beeswax, beads, calves, fur, slaves, almonds, and even dog's teeth (Tibbett, 1997). Money has three key functions: a medium of exchange, a store of value, and a unit of account. The first is achieved when the material functions as an intermediary in trade. A store of value refers to the ability of the material to be safely saved and retrieved. The final function, the unit of account, means that the item prices the value of the good in an understood unit of measurement. Clearly, there are conflicts between money's function as a store of value and its role as a medium exchange. First, there is the issue of individual hoarding. Secondly, there is a problem of localization.

Society has transformed money from a worthless item into an item with significant value in and of itself. This commodification invites speculation in money:

> Since money is in itself valueless, its worth is based on *confidence* that it can be exchanged for material goods anywhere and at any time within a political economy. Though intrinsically valueless, money has been commodified, most spectacularly, in the international currency markets which generate exchange relations (and profits) independently of the sphere of production or, in the case of futures markets, unbounded by time (Pacione, 1997).

In particular, money's newfound commodity status brought into conflict its role as a medium of exchange with its role as a store of value. As money itself gained value in the eyes of society, people hoarded money because it was a commodity "preferable to others because of its unique ability to preserve its value" (Tibbett, 1997).[2] Money thus becomes scarce as a means of exchange because it cannot circulate if it is being hoarded.

The second problem, while not new, has been amplified by globalization. Money is continually siphoned away from areas on the economic periphery to the core regions: money flows to areas where there are the highest profits. Thus, "the diversion of money from its role in facilitating trade to more profitable speculation on the money markets is accused of creating a situation in which a surplus of liquidity exists at the same time as a real shortage of capital" (Tibbett, 1997). Put simply, the poorer regions are left without adequate means of exchange as

[2] Granted, inflation will alter the value of money, but especially when the commodification of money was occurring early on, inflation was less of a problem. Moreover, compared to other goods traded, most notably food, money did not lose its value since it did not decay as those items did.

"money (as a store of value) is systematically removed from a locality by centralized banks and firms for investment in more profitable areas" (Seyfang, 2000).

IV. Complementary Currencies

These two problems regarding the conflict between money's functions have created the impetus for the creation of complementary currencies, which function alongside the official currency as an additional means of exchange. To explore the rationale behind complementary currencies further, it is instructive to examine their occurrence throughout history. To begin, it is important to note that "most alternative currencies throughout history have in fact been established where there is a perceived shortage of stable currency, frequently because of war or trade depression. Examples from wartime include the special government issues of Greenbacks during the American Civil War, the Bradbury 'Treasury Notes' and Kriegsgeld issued by Britain and Germany, respectively, during the First World War" (Tibbett, 1997). Because the official currency was in short supply or not valued as a medium of exchange (because of inflation or other issues), additional currencies were used to meet the need.

Complementary currencies were also created in isolated communities. "Both coal and lumbering enterprises had to be organized in the vicinity of the contributory resources, so were often located in isolated areas with lows population densities significantly distant from commercial centers" (Timberlake, 1987). In these remote locales, the businesses endured "a lack of infrastructure—no streets, no churches, no schools, no residences, no utilities, and no banks or financial intermediaries. The specialized industries that might otherwise have provided these services were dissuaded from doing so by the high start-up costs and the enduring uncertainties of dealing with low-income communities that might be there today and gone tomorrow" (Timberlake, 1987). Thus, the introduction of complementary currencies facilitated exchange and production.

Generally speaking, there are three types of complementary currencies. The first is a token currency, money issued privately that refers directly to a certain good. During the nineteenth century (and especially during the Civil War), "probably the most verifiable of unaccounted monies is the token currency issued by transportation companies, by bridge, ferry, and toll road companies, and by municipal enterprises" (Timberlake, 1981). For example, in 1839, the Monroe Railroad and Banking Company of Georgia "issued one-dollar notes that entitled the bearer to ride 12 miles, two-dollar notes to ride 25 miles, and three-dollar notes to ride 37 miles" (Timberlake, 1981). Modern-day versions of token currencies include air miles, loyalty points for grocery stores or bookstores, and gift cards.

The second example is scrip money, a localized medium of exchange that could be redeemed for a variety of goods and services, not just a particular good as with token currency. Scrip money, thus, functioned alongside the official currency as a medium of exchange. "One example issued in 1847 by the Ozark Iron Company's store somewhere in Arkansas offers to 'Pay to the bearer $5 in Merchandise at our [sic] cash prices'" (Timberlake, 1981). Scrip offered by coal and lumber companies was generally only redeemable at the local store, which issued the scrip. The purpose of scrip was to function as a medium of exchange between paydays. When the payday came, the storeowner tallied up the amount of scrip paid by the coal worker and deducted it from his paycheck. Besides the common occurrence of scrip, the complementary currency took on a new visage with the aid of Silvio Gesell: the stamp scrip. In order to facilitate money's role as a medium of exchange, Gesell believed money should 'rust':

> Every month or every week notes lose a fixed percentage of their nominal value, for example, a weekly rate of 0.1 percent of the nominal value of the notes, i.e., a yearly depreciation of 5.2 percent. Then, in order to maintain the value of their notes, people would have to purchase stamps every week at the Post Office. Stamped money means that the authorities impose on money, not prices, a stable, fixed, and announced inflation (Blanc, 1998).

Irving Fisher tried to institute the stamp scrip in the United States, and he succeeded on a small-scale basis: stamp scrip "schemes were adopted in over 300 US cities, towns and villages and

successfully kept local economies working through the Depression, until they were halted by President Franklin Roosevelt for fear of losing control of the monetary system" (Seyfang, 2000).

The third type of complementary currency relies on a system of mutual credit reminiscent of barter exchange. Work is paid in the form of credits, which are thus deducted when the worker 'pays' another for a good or service that he wanted. The mutual credit currency thus represents a certain amount of action or work that can be transferred. In the latter half of the twentieth century, there was a surge in the number of societies that embraced mutual credit complementary currencies, an occurrence that must be explored further.

V. Globalization and Currency

Both orthodox economic theory and the process of globalization encourage the creation of a single global currency, which would "bring the economy closer to profit-maximising perfect competition through the elimination of market inefficiencies and barriers to trade. National currencies, local currencies, competing currencies, exchange controls are seen as anachronisms, imposing social and economic costs and impeding economic growth" (Tibbett, 1997). Ironically, the globalization of capital encourages the creation of local currencies because of the inherent characteristic of uneven development, "which stems from the propensity of capital to flow to locations which offer the greatest potential return. The differential use of space by capital in pursuit of profit creates a mosaic of inequality at all geographical scales from global to local" (Pacione, 1997). In those periphery locales, many members are left behind, and these people, "unable to compete successfully in the arena of global capitalism, must look elsewhere—to the state welfare system or to the informal sector—for sustenance" (Pacione, 1997). The state, however, is not necessarily sensitive to the needs of disparate villages. The informal sector—local currencies—offers a more nuanced solution to uneven development.

Besides the economic trends, globalization's social impacts also encourage local currencies:

> Social trends inherent in global capitalism, including decreasing household size, increasing distance between relatives, and attenuation of neighboring relations within cities, have served to inhibit the operation of informal relations in which disadvantaged households could exchange goods and service for partial or no payment within the 'moral' economy of their own family or neighborhood (Pacione, 1997).

Clearly, the impersonal forces of globalization have created many problems for smaller, poorer regions. These "subnational localities wish to retain greater self-reliance and resilience of their economics in the face of unstable global speculative finance and unreliable inward investment" (Seyfang, 2000).

Mutual credit system currencies, generally in the form of a local exchange trading system (LETS), are one of the more popular reactions against globalization. Bernard Lietaer, co-designer of the Euro, notes that the use of complementary currencies took off "in the last 15 years. Even in 1990 there were less than one hundred complementary currency systems worldwide. Today there are over 4,000" (Dykema, 2003). LETS are truly a global phenomenon, with large numbers of LETS communities extensively throughout Canada, Australia, South America, Europe, and the United States, but also in Israel, Japan, and even the African nation of the Ivory Coast.[3] For example, Argentina's LETS communities have the participation of nearly a quarter of a million people and have an impressive annual turnover (*The Reporter*, 2001).

How does LETS work? Members of LETS exchange goods and services based on locally created credits; "LETS are grassroots organizations that enable their members to trade skills and resources, while keeping score in a notional local currency, called, for instance, Shells in West Norfolk, Bricks in Brixton, and Thanks in Hackney" (Seyfang, 2000). To take an example from the other side of the world, "there are about 300 or 400 private currency systems in Japan to pay for any care for the elderly that isn't covered by the national health insurance. They are called 'fureai kippu' (caring relationship tickets)" (Dykema, 2003). A person would help an elderly person by going shopping for him, preparing his food for him, or engaging in a variety of other forms of aid. This help translates into credits, which are put into a 'savings account', and

[3] See < http://www.cyberclass.net/turmel/urlsnat.htm > for internet access to local exchange trading schemes throughout the world.

are used when the helper is sick or are transferred to a relative or friend of the helper that requires similar aid.

Such schemes help ameliorate the problems associated with money's role as a medium of exchange. Because it is a local currency based on credit, the "money" cannot be siphoned off to more profitable areas. The local currency traps the money within a closed system, which fosters trade among its participants. It is important to note that LETS is not an attempt to isolate the area from the rest of the world; the credits function as an *additional* currency. Nor is autarky an expressed goal; barter systems are viewed as a manageable way to combat the forces of globalization: "these locally-specific monetary practices belie the universalization of financial space and demand a recognition of the importance of space and place as they were experienced by the actors in monetary social networks" (Seyfang, 2000).

Complementary currencies challenge monetary globalization by proffering a moral alternative to competing in the global marketplace and by preventing the globalizing forces from being absolute: they help to lessen the pejorative impacts on those left behind. Through LETS, money acquires a more personal value; transactions are less anonymous and more socially meaningful. "In a LETS, money is a purely local currency which cannot be traded outside the system. It is not commodified and its value is based on *reciprocal* trust among members of the LETS" (Pacione, 1997). Money is a possible tool to reassert local control over economic transactions because "complementary currencies offer a chance for localities to develop self-reliance and insulate themselves somewhat from the impacts of exogenous financial speculative investment upon concrete realities of production, employment, consumption and local social systems" (Seyfang, 2000). Moreover, "since no interest is charged on 'debts', non-productive finance capital is absent from the system. Neither is profit accumulation an important objective since trade can be engaged in by those in deficit" (Pacione, 1997). With mutual credit currencies, money is no longer scarce as a medium of exchange, there is a higher local economic

multiplier, trade is stimulated, and unemployment is less of an issue because anyone can contribute his skills.

While LETS have been largely successful, there are still some problems. The nature of LETS means that there are often more people offering aromatherapy for trade and not enough offering practical work, such as plumbing. Thus, there is a certain danger that necessary jobs won't be accomplished within a LETS system. Moreover, operating with multiple currencies involves a multitude of information and transaction costs. People need to know twice as many prices, and multiple prices for goods must be posted. Efficiency is thus negatively affected. There are also costs associated with having to network with individual people (I need a cake baked; who is available?) instead of going to one store for a multitude of needs. Switching between the local currency and the national currency also incurs costs; if a person decides to opt out of a local trading system, he will be at a disadvantage in the national economy because his LETS work is paid in non-transferable credits. But, the transaction costs in LETS aren't quite the same as operating with two official currencies; issues of fluctuating exchange rates do not exist as a LETS credit cannot be exchange for money in the national currency. Moreover, "consumers appear to be quite willing to participate in several discount and savings schemes, such as air-miles® and customer loyalty-cards in super-markets, and make purchases in terms of these units. With advances in digital money transfer and administration technology, transaction costs of using several currencies will diminish further in the future" (Schraven, 2001).

The second major benefit that complementary currencies offer society is a mechanism for identity-formation and community building. Local complementary currencies recreate community feeling, build social capital, and strengthen social cohesion (Seyfang, 2000). "In order to make sense of their complex and often chaotic social ties, people constantly innovate and differentiate currencies, bringing different meanings to their various exchanges. Thus, a multiplicity of socially meaningful currencies replaces the standard model of a single, neutral, depersonalizing legal tender" (Zelizer, 1996). These socially meaningful currencies rely on trust:

trust that members will accept the currency as payment. "Money as trust locates value in the morality of civil society; its fulcrum is the management of credit and debt in human relations" (Hart, 1986). LETS "can imbue a sense of locally-constructed identity and can reflect locally-specific social values and cultural conditions. It articulates a fear of losing control to outside forces by giving material form to a 'backlash' towards localism" (Seyfang, 2000).

One important issue that will surface in the future is potential conflict between the national government and the local entity embracing LETS: "while tax and benefit authorities currently 'turn a blind eye' to LETS earnings, 'excessive' growth could bring the system into conflict with the state financial system" (Pacione, 1997). As the popularity of LETS continues to grow, governments must keep an eye on the sustainability of the system within the jurisdiction of a state authority. Therefore, as these types of systems expand, national governments may find it necessary to rethink the issues of taxation and regional finance.

VI. Conclusion

Complementary currencies have a rich history, and their incidence in today's globalized world is rapidly increasing. Such an increase articulates people's desire to both reassert their local identity and to cushion the deleterious economic effects of globalization. In addition, the introduction and widespread use of such currencies poses some interesting challenges to future national governments. However, with no 'heads' or 'tails' to a mutual credit currency, local trading schemes hope to balance out the forces of globalization.

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