

THE PENETRATION OF LOCAL CURRENCIES, A POSSIBLE SOLUTION TO THE FINANCIAL CHALLENGES OF GLOBALIZATION

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ABSTRACT

While the role of the once dominant national currencies is decreasing, supranational currencies like the euro and local currencies used in smaller communities are widely used. The financial crisis has weakened the monopolistic grip of economies' national currencies. As has often been the case throughout history, local communities are trying to protect themselves and their economies with their own currencies, surrogates, and special accounting systems. Following the development of economic systems, community-based currencies are changing themselves. During their creation the primary concern is not only economic interests, but also local social, cultural, and moral standards. Using these they try to connect the untapped opportunities and unmet needs, and generally improve allocation of resources. Community currencies mostly have the same value as the national currency; this why they are called parallel or complementary currency, or social money. This serves two purposes: to maintain price stability and to facilitate the use of the parallel currency. If local money is used only for local purchases, and the national currency is used for all non-local purchases, there is no direct competition between them. Of course, people are generally more confident in the national currency, but they are also very sensitive to price. If some better form of payment, payment conditions, or even form of debt is provided them, they are likely to accept and join in the use of local currency and the community accounting system.

Keywords: allocation, local currency, conditions, community accounting system

INTRODUCTION

The continued economic development and globalization are examples of the number of challenges for our societies. From these the most important challenges are the regional and moral crisis of the nations, the unemployment, the inflation and the alternation of the cycle of recession and growth. Every single culture, country, region and society seeks possible solutions to maintain and repair situation of the various economic actors, especially the private sector. In the past decades the role of national currencies decreased in several cases, while the currencies of nations uniting communities seems to “get stronger”, although with significant vacillation. Their international acceptance and their role on the international financial markets have become more stable. In addition to these and improving their negative consequences resulting from use, local currencies used in small, local communities are widely spread Like in several occasions in the past 6 000 years, the

local communities try to protect themselves and their economies with own currencies, monetary substitutes and with special accounting systems.

A little bit of history

Local currencies and accounting tools have had two basic goals in the past few thousand years. On the one hand they should provide the satisfaction of people's demands, namely the flow of products and services, the harmonizing of supply and demand. On the other hand they should provide the preservation of economic stability for the local economic actors. Let see some known and less known examples!

The medieval is a significant era of German cities' development. The Archbishop of Magdeburg in 1452 printed small tin sheets, which was used exclusively in the conduct of local trade. The little "brakteats" sheets should be handed in twice a year, which were newly made and returned to owners in with the tax reduced amount. The merchants lived their golden ages. They didn't want to accumulate the medium of exchange for the operation of the economy. So that the resulting excess is usually spent on infrastructural development and for the church.

After the Napoleonic wars thanks to the British bankruptcy because of the lack of the British national currency the exchange of goods were also under threat. Therefore, in 1816 Jersey Island citizens have been created their own local currency for the operation of local trade. Thanks to its efficiency the accumulated debts in national currency were paid after 18 months and important infrastructural developments occurred. Today there is local currency equivalent of USD 36 million in this system with about 60 000 economic participators.

In 1920, after World War I, the German government tried to manage the high deficit and the huge debt with the rapid inflation of the Deutsche Mark. Thus, the German cities, among them for example Lübeck, created its own currency to protect the local community's interests.

After the monetary crisis in 1929 also some American and Canadian municipalities, following each other, tried to survive the recession with the help of local currencies, which was helped also by the economist Irving Fisher with theoretical and practical propaganda.

The growing trend spread to Europe, one of the other success stories followed each other. In 1930, in a small village in Bavaria in Schwanenkirchen the indebted coal mine owner's printed slips "wära" instead of mark. He paid the salaries of their employees in wära and the local merchants were forced to accept it. The cover of the wära was the coal, itself as a commodity. The slips had to be enforced with a stamp per month. This ensured its rapid rotation and made its accumulation impossible. 2.5 million people used the almost 20 000 t-wära.

The local currency system called only as "Wörgl miracle" was introduced in 1932 in the Austrian city to address the problem of unemployment. For job seekers were public works provided p, which greatly improved the infrastructure conditions, their wages have been received in local currency, which could be spent by the local traders, who could satisfy their tax liability in this. The result of Wörgl's community currency is very significant. The unemployment rate decreased on the natural level in a year, while rotation speed of the new currency was 14 times faster as the national currency's.

The presented local currencies, thanks to central banks both in America and Canada, and in Central Europe, were in many cases, ephemerous. After some years the central bank had banned them.

To sum it up (*Table 1*) we can state that each community currency system tried to solve a crisis, generally with considerable success. They favoured local interests, both in moral and in social, cultural and of course the most important, in economic aspect as well.

Table 1

General results of the local currency systems

Reasons for introduction	Results
economic crisis	increase economic activity
high level of unemployment	decrease unemployment
huge national debt	increase money's velocity of circulation
company bankruptcy	its wide use excites inflation
improving quality of life, moral goals	its function based on solidarity

Recently international results and experiences

Gomez and Helmsing (2008) examined local currency systems (LCSs) of Argentina. The first LCS was started in 1995 with 25 participants under the name Club de Trueque (CT). Transactions among participants were written in a common computer file and individual cards, and were denominated in „créditos” as unit of account equivalent to one peso. Rise of number of local CTs is partly thanks to the Mexican and Asian economic crisis of 1995 and 1998. Around 4700 CTs operated in 2002 and they had approximately 2 500 000 participants. CTs varied in scale, scope, resources, and political visions. Year 2002 was the top, after 2002 number of CTs and participants declined quickly through different causes.

LCSs were important eminently for poor people. The majority of participants were unemployed workers, followed as second largest group by unpaid home-workers.

Gomez and Helmsing (2008) analyzed two mechanisms: the diversification of income that LCS offers households and the creation of micro-enterprises in the protected space of the LCS.

According to their survey, LCSs helped the poor to maintain their lifestyle. 42.5% of 386 respondents said their households' situation had improved after entering the CT, 57% of the respondents answered their situation stayed the same and only 0.5% said their situation deteriorated.

The majority of the participants indicated that their households had one or two sources of income in pesos. Most of them had regular or temporary or irregular job, but the income in pesos is insufficient to cover the household's expenses. So the activities in the CT clearly held a position as secondary or complementary source of income.

Gomez and Helmsing (2008) draw conclusions according to their Argentine observations. Well functioning LCSs “seem to have achieved long-lasting effects in terms of women's empowerment, acquisition of skills, and micro-enterprise

creation. On this last point, the LCS acted as a “social incubator” enabling some households to set up microenterprises.”

Krohn and Snyder (2008) did not find large benefits of using local currency system in contrast with Gomez and Helmsing, but Krohn and Snyder examined these systems in a forcefull, stable economy. They analysed locally printed money of the 1990s in the United States. The United States economy was relatively stable by historical standards in that decade. According to their analysis local paper currencies do not offer large economic benefits during periods of economic and financial stability. Conclusions of their study are the next:

- seigniorage from local currencies is small,
- cities in the United States that attempted local currencies during the 1990s did not experience higher rates of growth in income than other cities,
- more than 85 percent of the local paper currency systems begun since 1991 in the United States have become inactive.

Typical forms of local currency systems

Table 2 summarizes the typical forms of local currency systems and introduces their most important features. In the following we introduce briefly the functions of these currency systems.

Table 2

Typical local currency systems

	Ithaca Hours	Time Dollars	LETS	WIR
Unit	1 hour = 10 US\$ (on account))	Time of service	Green \$ = \$	CHW
Who puts into circulation?	Center	Co-operative	Co-operative	Center + Co-operative
Details	full bodied money without intrinsic value, coverage handling is necessary	generally fixed exchange rate 1 hour of yours = 1 hour of mine	the most widespread local system	accounts in national currency (CHF), among themselves CHW

Source: Based on www.transaction.net

The “Ithaca Hour” is the largest and oldest local currency system in Ithaca (in the United States) used in Ithaca, New York. .One Ithaca Hour is valued at US\$ 10 but the direct conversion is impossible. The issuance of currency is controlled by the Circulation Committee. How do new Hours get into circulation?

- The local self-employed who accept these community currencies have to pay US\$ 20 for the membership of the Directory and get immediately 2 Hours. There are 900 entertainments (self-employed) in the system.

- the Circulation Committee gives interest-free loan or some donation for local institution (school, church, firm),
 - Basic system expenses are paid in local currency, such as printing new currency
- Employees of the sole traders who can accept this local currency are paid partially in Hours which is available in local shops, swimming pool or in some market.

The Time Dollar system differs from it because the value of time dollar is not expressed in national currency. The unit of currency is always valued at an hour's worth of any person's labor. (One person volunteers to work for an hour for another person, they are credited with one hour, which they can redeem for an hour of service from another volunteer.)

So there is no need any store of value.

A LETS (Local Exchange Trading System) spread very quickly in Anglo-Saxon countries due to the development of computer science.

These states, cities and village had high unemployment rate this time. 450 groups has been formed in the United Kingdom. The largest is in Australia, near Sidney which is still working with 1800 members who can change services with each other, e.g. babysitting, cleaning, tutoring, small home repairs.

In Minneapolis there are some shopping center who can accept these complementary currency in some percent. - That means it is a price-cutting, so that can increase the sale.

The „surrogate(s)(?)“ that has been created by Wirtschaftsring-Genossenschaft (WIR) in Zurich in 1934, is still in circulation. The organization has introduced a local currency called CHW it does exist just in the form “scriptural money”.

The cooperative issued local money in two forms:

- the members of the cooperative paid Swiss franc to bank account of WIR, and got 5% more in CHW.
- interest-free loan in CHW. This form of money issue still exists.

Nowadays the cooperative has 60 000 members and organizes regular training programs and meetings to encourage its member's business relationship. This activity has a positive influence on the circulation between the Swiss small- and middle-size companies.

Local currency systems and functions of money

Under financial theory aspect, it can be interesting to examine the monetary function of these exchange trading systems (scheme nr. 2). The standard measure of value is available in every local monetary system but they are just exchangeable in a few places. The voluntary service as well has an important role because nobody can be obligated to accept or pay off the total amount of debt with this local currency. The most essential requirement of the system is this voluntary service. All systems can be fill standard of deferred payment function. The restriction of the “accumulation function” is the other essential requirement of the system because it's not to save money but to promote the local circulation. Although it is possible to lay by but it's really useless if we think about what we could do 10 000 Hours “time dollar” as a pension. Finally, we can say that these local currencies can act the part of monetary function with these restrictions but we cannot define them as “money” because they are not created by banks (*Table 3*).

Table 3

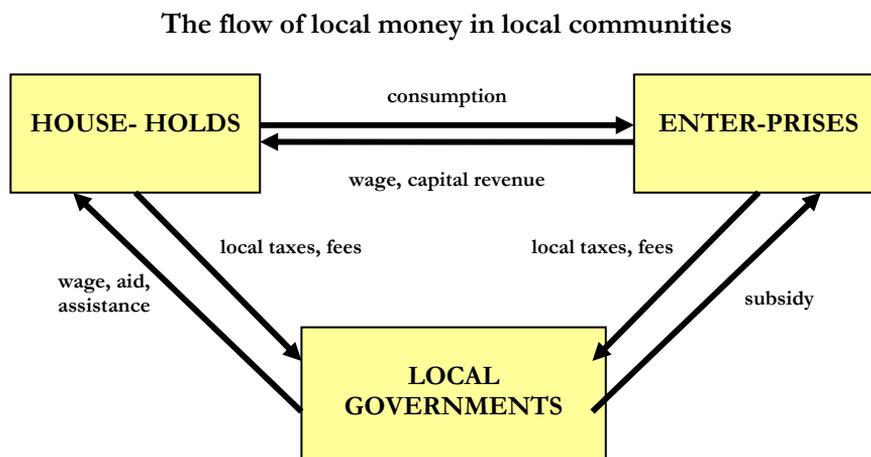
Typical local currency systems and the functions of money

	Ithaca Hours	Time Dollars	LETS	WIR
Standard of deferred payment	+ (hour) area limit	+ (hour) area limit	+ (green dollar) area limit	+ (CHF) area limit
Medium of exchange	+ volunteering limit	+ volunteering limit	+ volunteering limit	+ volunteering limit
Unit of account	+ Interest-free loan	+ mutual credit systems		+ loan
Store of value	- no conversion of national currency	- possible, but non sense	- exchange with 10% free	- no interest or conversion

The most important points of introducing local currency systems

It is very important for the local currency to circulate quickly and participants do not have to convert them in the national currency. It is therefore the households receive share of transfers and the wage only as much in local currency, which are disposable within one month. The case of enterprises will be the income in local currency not much than paid wages and local taxes. So the local government can cover wages, aid and subsidies from this local tax income. In our opinion the balance of expenditure and revenue of economic participants is necessary condition of successful local currency (*Figure 1*).

Figure 1



CONCLUSIONS

To sum it up we can state that local currencies are able to fulfill all of the functions of money and people can call them money, although strictly speaking they are only monetary substitutes. What's more they are endowed with special functions next to the classical function of money, which strengthens the identity of the local currencies.

However the idea, that local currencies are able to replace national currencies, is highly dubious, because they have local and volunteer barriers.

For themselves their existence is legally questionable, because only the central bank has the right to put money into circulation. Until these are used in different forms of vouchers or monetary substitutes, they stay outside of the national bank's control.

Their indisputable result is that they can encourage local communities to create value by mobilizing extra resources in our highly globalized world. As the only domestic and international examples show local currencies played a great role in that local communities could address the negative effects of economic crisis, as well as living standards have risen. For this, however, social, cultural and moral unity is essential.

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