

Ondrej Kolinsky<sup>1</sup>, Petr Sauer<sup>2</sup>

## DOWNSCALING THE ECONOMY: LOCAL COMMUNITY CURRENCIES AS A GLOBALISATION CORRECTIVE

*This article introduces the basic functions of local community currencies and endeavours to expand this theory by suggesting the concept of economy of virtue. This is a state, supposedly brought about by local community currencies, that allows for moral dimension in economic decisions and their positive feedback in the system.*

*Keywords: alternative currency; local community; regional economy; economy of virtue.*

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Ондрей Колінські, Петр Шауер

## ЗМЕНШЕННЯ МАСШТАБІВ ЕКОНОМІКИ: МІСЦЕВІ ВАЛЮТИ ЯК КОРЕКТИВ У ВІДПОВІДЬ НА ГЛОБАЛІЗАЦІЙНІ ВИКЛИКИ

*У статті описано основні функції місцевих валют та пов'язана з ними теорія доповнена авторською концепцією «економіки доброчесності». Економіка доброчесності стає можливою саме в контексті вживання місцевих валют, з акцентом на моральному аспекті економічних рішень та на їх позитивному впливі на економічну систему в цілому.*

*Ключові слова: альтернативна валюта; місцева спільнота; регіональна економіка; економіка доброчесності.*

*Табл. 1. Літ. 14.*

Ондрей Колински, Петр Шауэр

## УМЕНЬШЕНИЕ МАСШТАБОВ ЭКОНОМИКИ: МЕСТНЫЕ ВАЛЮТЫ КАК КОРРЕКТИВ В ОТВЕТ НА ГЛОБАЛИЗАЦИОННЫЕ ВЫЗОВЫ

*В статье описаны основные функции местных валют и связанная с ними теория дополнена авторской концепцией «экономики добродетели». Экономика добродетели становится возможной именно в контексте употребления местных валют, с акцентом на моральном аспекте экономических решений и их позитивном влиянии на экономическую систему в целом.*

*Ключевые слова: альтернативная валюта; местное сообщество; региональная экономика; экономика благодетели.*

**Introduction.** In this paper we discuss the role of local community currencies (LCCs) in today's world. There is a huge variety in these tools as they are usually tailored to specific needs of a particular region and follow different lines of theory so we dedicate the first part of this paper to introducing the basic typology. Their common feature is to serve as a market corrective in the areas where supply and demand could not be matched without assistance. The second part of this paper is dedicated to these issues covered by other authors. The third part is focused on a proposal of a new function which we shall call "economy of virtue". The term will be explained in its context and discussed with regard to other theoretical issues. Finally, empirical testing for the new theory is proposed.

**Definition and basic typology.** Local alternative currencies are in theory any complementary currencies limited to a certain region, often this would be a city and its

<sup>1</sup> University of Economics, Prague, Czech Republic.

<sup>2</sup> University of Economics, Prague, Czech Republic.

immediate surrounding area. This paper, however, is not concerned with such currencies created by private firms for marketing or consumer purposes. Its focus is purely on the currencies that serve as a community tool in strictly non-profit contexts. J. Blanc (2011) shows various concepts of such currencies as they appeared in generations ranging from LETS (local exchange trading schemes) and time banks, where reciprocity comes first, to more market-oriented tools. Another variable is the level of convertibility with national currencies and openness for partnerships with governments or businesses. The units typically refer to national currency (e.g. alternative dollars), where accessibility is considered to be the most important factor, or to a unit of human work (e.g. one hour of work), where it is an important message that time of participants is considered equivalent unlike at traditional labour market. This was often the case in utopian communities of the nineteenth century US, as described by T.B. Cohen-Mitchell (1998). Another important theme is the interest rate as alternative currencies often tend to reject the usual positive rate. From the beginning, there have been examples of alternative currencies with demurrage (or effectively negative interest rate) such as the famous miracle of Wörgl in 1930's described in detail by M. Pacione (1999). Another approach is enforcing a zero interest rate, which tends to be an opposition to the principle of depreciation and debt prevalent in the outside economy. This paper deals with LCCs and their functions in general even though the accent on various features may differ among the types.

**Literature review: functions of local community currencies.** Geographical limitation coupled with demurrage creates a strong incentive for currency circulation (it may easily rise 20 times) and may significantly boost exchange in a region. This was the idea behind the above mentioned Wörgl experiment and many of its more recent followers. In the Keynesian theory, this enhanced circulation is an ideal response to crisis as the consumption multiplier is put to practice. Moreover, projects intended to boost consumption within a region can work significantly better within the alternative currency as investments do not leak from the region, e.g., as profits of external firms. These ideas were originally promoted by the guru of alternative currencies, S. Gesell (1958). The idea of negative interest as a means for crisis recovery has nonetheless overgrown alternative currencies and is regularly discussed on a larger scale, e.g., by M. Fukao (2005).

Not only do alternative currencies increase exchange, they can also widen its objects by creating new markets. It is typical that underdeveloped regions going through periods of bad economic performance and exodus of local people are caught in vicious circles where equilibrium keeps moving towards more adverse situations. This trend can be switched by connecting underutilised assets (e.g., empty buildings, unemployed people) with demand (e.g. qualification courses, senior or child care) as in detail described by B. Lietaer and G. Hallsmith (2006). Similar problems can be faced by whole countries under depression and even then can local currencies be considered as a possible remedy as proposed by I. Fisher et al. (1933) during the Great Depression.

Apart from boosting the local economy, local currencies can also bring about degrowth (for a comprehensive explanation of degrowth see F. Schneider et al., 2010) as proposed by K. Dittmer (2013). It is mainly by enabling alternative, eco-friendly livelihoods and reducing consumption by encouraging resale, sharing, or repairing

goods. Although K. Dittmer concludes there are more efficient ways towards these ends, he identifies some positive effects particularly in the abovementioned factors and community building. This is another key issue as alternative currencies may create relationships between like-minded people and foster communities so that other activities and projects will be easier to realise. A community currency can serve as a portal to a much more engaged and locally active life.

Finally, as proposed by G. Seyfang and N. Longhurst (2013) alternative currencies create niche spaces where new concepts can be formed and develop under protection from the real market environment. In this view, currencies can work as nurseries of a new economy that is not yet ready to take over everyday life but can once be integrated into the official system tackling some of its persistent downsides. This can be of particular value in economics where experiments to test theories and hypotheses can rarely be planned and conducted and researchers often have to wait for them to occur. An example of such an experiment is the negative interest rate used by some local currencies.

*Table 1. Functions of money, authors'*

Functions of money	
Traditional	Local community currencies
Medium of exchange	Boosting exchange
Unit of account	Creating new markets
Store of value	Promoting degrowth
	Providing niche spaces

**Expanding the theory: Economy of virtue.** We would like to propose another new function of alternative currencies to widen the described theory. To put it simply, alternative currencies help create what could be called the economy of virtue. This is a system where well considered and responsible decisions perpetuate themselves as they are rewarded with a positive feedback.

The name was chosen to stress the opposition from the system to which vice is inherent and harmless (even desirable), as noted by B. Mandeville (1970). His key argument was that vice increases the volume of traded goods and services by boosting demand and thus eventually improves the overall welfare as economy thrives. This implies that market is not only value-neutral, it can actually turn morally poor decisions of an individual into higher good of the whole society.

In the perspective of today's world, boosting the exchange volume is not necessarily a way to improvement. The economy of virtue introduces the concept which allows consumers choose to support what they consider good practice and not to support the opposite. It may sound trivial but normal currencies do not enable such channels. For instance, if a dollar price of a good is very low, it may have various reasons. It could be because a good is very simple to produce and does not require any scarce resources or excessive work. Nonetheless, the good could also be produced in a sweatshop exploiting child labour or that of very badly paid employees. It could also come from a factory which imposes massive externalities on its natural and cultural surroundings which effectively lower the cost of a product. On the contrary, an expensive good could derive its price from high quality materials, well-qualified labour or perhaps it is costly due to brand being famous so that its owner can seize some extra

benefit just from the name. Price not only provides very incomplete information, it mixes up what consumer may consider moral and the opposite. We could call this moral confusion that effectively prevents consumers from making virtuous decisions.

LCCs guarantee regionality and small scale which allows information about producers to be more available. You are much more likely to know about employee exploitation or nature pollution when it is happening in a nearby village than when it takes place on another continent (and also much more likely to care). LCCs also guarantees certain level of responsibility for traded goods and services as it tends to attract people with a good knowledge of production impacts and after all the community would not support practices harmful to itself. Moreover, high concentration of people specialising in ethical consumption further increases dissemination of such information among the community members.

**Conclusion.** As previously mentioned LCCs could be thought of as niches of emerging systems. The economy of virtue is perhaps such a system, still in its incubation period. It brings a promise, however, of a world where money can be utilised as ballots in shaping the world according to each consumer's liking. While this is theoretically possible today, it is practically impossible to gather all the necessary information and consumers would need to spend most of their time researching the background of goods, even then relying on generalisation and packaging.

Not only is the proposed economy of virtue not ready for a wide application, it is not even clear if it indeed exists (and is perceived as such) in LCCs and among their members. The theoretical foundation proposed and explained in this paper still requires qualitative testing on the existing alternative currencies. It could be measured how is the moral dimension perceived by the members of LCCs and how inherent to these schemes are the value-based arguments regarding trade. It could also be tested if there is a system to repress practices regarded as unsustainable or harmful by the members of a community and if such problems do arise.

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