Chapter Three

CUTTING THE MONETARY TIE

If people living in an area cannot trade among themselves without using money issued by outsiders, their local economy will always be at the mercy of events elsewhere. The first step for any community aiming to become more self-reliant is therefore to establish its own currency system.

The establishment of a local money system is absolutely fundamental to greater economic self-reliance. This is because, at present, the level of trading activity in almost every part of the industrialized world is determined by the amount of money which flows in from outside. Unless that flow is adequate, even jobs which local people could do for themselves without any outside resources will be left undone. For example, I may have the materials to paint my house and a neighbour, an experienced painter who is temporarily underemployed, might be keen to do the job for me. However, if I have no national currency with which to pay him, I will not be able to use his services unless we can work out a barter arrangement, something which might be difficult as I may have nothing I am prepared to give up which he wants from me and which is roughly equivalent to the value of his labour. As a result, I may be forced to do the painting rather inexpertly myself.

Local currency cheque form and tokens as used in the Westport LETS currency system.

The conventional solution to this problem is for me to try to earn more national currency. Individually, I might be able to do so by working for someone else in my community but if the community as a whole is to increase the number of things its members do for each other on a permanent basis, we will need to get a larger stock of pounds into circulation permanently amongst us. This can be done by increasing the amount of goods and services we sell to - and hence our reliance on - the outside world. However, quite apart from the risks to which this exposes us, the new money tends to flow out again nearly as fast as it came in so that a big rise in external sales is likely to be needed before we can achieve a significant rise in the local national currency stock.

A better alternative is therefore for us to try to stop what national currency we are already earning outside from leaking so quickly away by making more of the goods we are buying from elsewhere for ourselves. This is a valuable strategy. However, even when we have replaced a proportion of the goods imported into our communities with those of our own, the link between the level of economic activity and the flow of money from outside remains. Only the ratio has changed. By cutting the leakage rate we have simply moved to a higher activity level for a given amount of money flowing in.

The best approach is therefore for us to make our internal transactions independent of the external money flow by using a special currency with which to carry them out. After all, the only role the national currency plays in transactions between neighbours is as a measuring stick, a scale by which the value of the work done by the man who comes to paint my house can be compared with the value of the work I do for him or for another of my neighbours. It is a way of ensuring that no-one takes out more than he or she puts in. Functional families and small, stable communities do not need to use money to measure each person's input in order to ensure that everyone pulls their weight: members just do things for each other without keeping count in the confidence that it will all balance out in the end. The community on Inishmore, one of the Aran Islands, still functions this way. In larger groupings, however, most of us seem to feel the need for some way of keeping score.

In the past all successful societies had systems under which people worked for each other and the common good without the intervention of cash. Hugh Brody writes in his well-known book on Irish rural life *Inishkillane* [1] that some form of mutual aid 'compounded of claims and counter-claims between farm households has prevailed in virtually every society where small farming has been the basic activity' and quotes a phrase from Isabel Emmett's study of a North Wales village: "to farm this district, a man must either have the constant daily co-operation of his fellows, or he must have a very large sum of money behind him".

In Ireland, Brody says, there is little evidence that the households involved in a mutual-aid relationship ever bothered to keep an account of each other's obligations. "It seems that the details were vague and the fact of the relationship more important than the memory for particular exchanges that occurred in it. What a household knew was the neighbours they could look to for help, and to whom they would not refuse to give help if asked themselves."

He likens the relationship to that of savers to their bank. "The giver, by giving, guaranteed that he would be the receiver in the future. In that way, the giving of surplus to friends and neighbours is not very far from the giving of surplus to the cashier in a bank. The quality of integrated society, like the legal rules of banking, guaranteed that the gift would not be forgotten and a future claim ignored."

However, as subsistence farming gave way to more specialised production for sale to exporters, it became possible to save actual cash for a rainy day rather than storing up favours with one's neighbours. Remittances from family members overseas also helped reduce the household's near-total dependence on its own resources, and consequently reduced its need to have neighbours available for back-up should those resources fail. Nevertheless, examples of mutual aid systems still exist or have ceased to operate only very recently. A friend of mine can remember neighbours coming to her father's farm in the West of Ireland each autumn until it was sold in the mid-1960s to help bring in the crops and then, after this work was done, her father, his five men and his threshing machine going off to help harvest the neighbours' crops in return. "No money changed hands, even though the contributions to the overall effort varied" she says. "It was the *meitheal*[*]. The imbalance just did not matter."2

In general, however, economic relationships are now too complex and too transitory throughout most of the industrialised world to allow systems of exchanging labour without a measuring stick to survive apart from those involving relatives, close friends and immediate neighbours. Our intra-community transactions have consequently become highly dependent on the flow of cash from the outside world, a change which makes us very vulnerable should the external money supply fail to supply us with enough measuring units to do all the trading we would like with each other.

Developing an independent local supply of measuring units to facilitate local exchanges is therefore an essential step towards greater community self-reliance and several hundred communities, almost all in the English-speaking world, have already established such systems of measure. Most of these are based on one developed in the early 1980s by a Scots-born Canadian, Michael Linton, in the Comox Valley in British Columbia and use either the national currency or time as their units of measure, although other units[+]

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[*] *meitheal*: Lit. 'working party': the Irish word for this system of mutual support and help.

[+] In ancient Eygpt, grain was the monetary unit.The farmers would deposit their crops in government-run warehouses aginst receipts showing the amount, quality and date. These stores united the farmers beacuse they protected the grain against theft, fire and flood and also saved them the cost of providing their own, or selling their crop immediately after harvest, when prices were low. The stores also enabled them to pay their rent and to buy goods simply by writing what was in effect a cheque transferring grain from their account in the store to that of someone else; people using another grain store in another part of the country could be paid with these cheques. The various stores would balance their claims against each other, just as banks do today, and the grain itself would only be moved if there was a net flow of cheques from one town to another and the grain was actually needed there for consumption. In other words, the weight of grain was merely a basis for accounting and the grain itself was not a standard barter good. The tobacco stores in the New England operated in much the same manner and enabled the crop to serve as legal tender in Virginia for almost two hundred years and in Maryland for a century and a half. As J.K. Galbraith points out in *Money: Whence it Came, Where it Went* (Penguin 1976), this was longer than the gold standard managed to survive. An important feature of both grain and tobacco as currencies was that whoever held a deposit was not only charged for keeping it in the warehouse-bank but knew that it would deteriorate there and consequently ate, smoked or spent it as soon as reasonably possible. As a result, money was not hoarded but circulated well.

have been proposed such as cords of firewood (in certain areas of Canada and the US more or less anyone can go out and cut wood, thus turning their time into a readily-measured amount of winter heat) or litres of milk.

Most of the Linton-inspired LETS (local exchange trading system)4 ,issue their members with special cheque books and operate their own computer-based cheque clearing system to record the payments in and out of each individual's account. In the system to which I belong in Westport in Ireland, we each collect up all the cheques we have received on the last Thursday of each month and post them off to the member who operates the computer system. Our statements of account are available for us by the following Thursday. It's simple and works well.

PANEL

Money, according to Michael Linton, the developer and populariser of the most widely-used local currency system LETS (an acronym for "local exchange trading system", although some people substitute "employment or "enterprise" for "exchange"), is "the unreal stuff that we swap for real stuff" and, in his well-practised public address, he goes on to highlight three major differences between national currencies and their local cousins [3]. The first is that a national currency is acceptable anywhere - in some cases all over the world - while a local currency can only be used in a very limited geographical area. This restricted acceptability is a plus rather than a minus factor, he explains, because the smaller the system, the sooner any spending power introduced to it by a member is likely to find its way back to him or her in the form of increased demand for their goods and services.

"If you spend money in the national system, it has gone. The individual's spending power has no effect on the overall level of demand and on the ability of other people to trade with him. On the other hand, in a local currency system, if you buy from a fellow-member, his spending power is increased and, directly or indirectly, the extra purchases he makes are likely to increase demand for whatever you are offering. The smaller the system, the sooner your money comes back. Spending money in a small local currency system is like eating bread in a hammock and trying to brush away the crumbs: they just keep coming back."

The second key difference is that national currency is always scarce because its supply is deliberately restricted for fear of inflation whereas, since a local currency is created by people doing things for one another, its supply is always adequate for their needs. All LET schemes create money by allowing, indeed encouraging, their members to go into interest-free debt because it is only if one member runs up a deficit by buying another member's goods or services that the other member can move into credit. At any time and in every LET system, the total of all the accounts in credit will equal the amount the

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rest are in debit and, if everyone trades so as to bring their account back to zero, all the purchasing power will disappear. Some systems such as the first attempt to start a LETS in Totnes, Devon, failed because members were so reluctant to run overdrafts that they were never able to trade at all. "If you are prepared to do something other people want in the national system the money will not necessarily be there for them to hire you but, with LETS, it will" Linton says.

The third difference is that as the national currency comes from outside the community and is in short supply, it can be used by those with a lot of it to gain power over those without. A local currency, on the other hand, can never be an instrument of power and domination because no-one is ever desperate to get it: they can simply make their own. Consequently, although a person may have a lot of local units in his account he cannot avoid having to persuade a heavily-indebted member to work for him because, as no interest is payable on overdrafts, the only pressure the indebted member will feel to do so will stem from his sense of obligation to the other members of the group to return the equivalent of the goods and services he has had from the system within a reasonable time. If he dislikes the other member, this might well over-ride his wish to fulfil his commitment to the group as a whole. In LETS, it is the local-units rich member who is in the exposed situation rather than the indebted one.

Linton encourages LET systems not to place formal limits on the extent to which members can overdraw, suggesting that they should rely on group pressures and gentle advice from an active co-ordinator to prevent members from becoming so heavily indebted that they despair of ever meeting their obligations and cease to participate. Although many schemes have not taken this advice and have imposed limits, it is certainly possible for a system to operate satisfactorily without them because if a member withdraws leaving a badly overdrawn account behind him, no-one in the system suffers unless a crisis of confidence causes the system to break down. All that has been lost is the goods and services which the missing member would have supplied to the group as a whole if he had discharged his obligations before his departure and since those goods and services can be supplied just as well by a new member as by the old one, so long as the system keeps recruiting and trading, nothing is lost. Every member who supplied the defaulter has been paid.

Provided they are kept small enough, LET systems can be nicely self-regulating. In many places, members get a bank-account-style statement of their account each month, showing the cheques they have written and lodged. They also get a sheet showing the state of every other member's account so that anyone who feels that another member is drawing rather too much from the system can decline to do business with them. In other words, each member has the power of sanction over every other member's descent into the red. However, once the group gets too large this type of control becomes less effective. Because of this, and the benefit of having one's own LETS spending come back quickly in demand for one's own goods and services, many people think that five hundred might be about the maximum desirable size for a LET system.

Linton's views on size can be confusing. On the one hand his seminars stress the advantages of small scale and present the vision of a future in which towns will have several systems, some of which will operate in particular districts areas while others will be based on churches, sports clubs and other organisations and draw their members from a wider area. Most people, he thinks, would be members of more than one system.

On the other hand, the last time I met him he was hoping to arrange for his consultancy company, Landsman, to undertake the setting up of a 3-million member system in Sydney, Australia, on a profit-sharing basis. When this project failed to get beyond the proposal stage, he tried to start a massive system in Manchester and made himself unpopular with some LETS enthusiasts in the area, some of whom disliked the fact that a considerable amount of national currency was being invested in the project on which it was hoped that there would be a commercial return. However Linton insists there is no inconsistency because all sizes of systems have their role 'like gears on a bike'.

The biggest LET system in the world at present, and the one which Linton says is the best he knows, is that operating in Katoomba and other small towns strung along the road and the railway line to Bathurst as it passes through the Blue Mountains about forty miles from Sydney. It was started in February 1991 and by the end of 1993 it had 1,000 accounts representing perhaps 1,200 people as not all the accounts were individual ones. About 70% of the accounts were classified as active, having traded more than 100 Ecos (an Eco is regarded as equivalent to an Australian dollar) since they were opened. "In a typical month we process more than 800 transactions worth more than 40,000 Ecos" Peter Furnell, one of the early members, told me.

So large has the number of accounts become, in fact, that in mid-1993 the decision was made to post each member's statement out quarterly rather monthly. "That seems often enough for most people" Furnell says, "and it enables a new issue of Green Pages, the directory of all the services our members offer, to be posted in the envelope as well." To supplement the directory, the group also publishes a weekly bulletin, a single A4 sheet printed on both sides which lists goods which members have for sale and news about the system. This is distributed to pick-up points in shops and pubs throughout the towns. "For a lot of things, you just can't wait until a new edition of the directory comes out" Furnell says.

The system's rapid growth - after its first nine months it had 120 accounts so roughly 400 people must have joined in both 1992 and 1993 - has meant that it has become much less personal. "People no longer feel that they know everybody or that they could do so. That's a loss. They now say 'LETS should do this' or 'LETS should do that' rather than 'We should do it'" Furnell comments. There are no signs that the system has suffered in other ways, though. In particular, no-one has abused the system by running up large debits and putting nothing back. As at September 1st, 1993, 2% of the accounts were overdrawn by more than 1,000 Ecos, but all of the holders had traded more than 2000 Ecos during the system's life. "We do have a E2000 limit on overdrafts but its not enforced very strictly" Furnell says.

To overcome the increasing anonymity of the system, Kaiya Seaton, the co-ordinator of the Development Group, says that they intend to turn it into a 'multi-LETS' by encouraging the formation of sub-groups in each of the towns they cover, with each group issuing its own newsletters and trading as far as possible amongst themselves. She adds that, when new systems have set up in neighbouring areas and suggested ways in which their members can trade with those in the Katoomba system, she has discouraged them from doing so: "I told them: 'Don't trade with our system as it will cause you to lose your own."

2002 Update by Caroline Whyte

The Katoomba LETS system, officially known as Blue Mountain LETS or BMLETS, experienced a "golden" time around 1996-97. Membership peaked at 1000+ people, and the system was administered by an elected membership committee which had a central office to handle all transactions.

Some problems began to arise in 1997 when BMLETS incorporated as a legal entity. Michael De-Campo, who has been involved with the system from the early days, told me in an e-mail in August 2002 that the incorporation took place "in order to gain some government grants, get tax sorted out and have Public Liability Insurance available". The flip side of incorporation was that the system now needed to have official and exact record-keeping, monthly meetings, and additional funding to function as an incorporated entity.

The extra funding was not a problem at first as there were so many members, but became one when membership began to decline after a couple of years. De-Campo lists a number of reasons for this decline, among which were: the fact that the population of the Blue Mountains area tends to be rather transient, with people moving away after a year or two, the lack of a feedback or mediation system for dealing with dishonest or shoddy trading, and the difficulty caused by volunteers' having to "hold it all together", ie keep complicated records, recruit new members and hold events.

Another problem was caused by the need for office space. With incorporation, there was a need for a larger office than previously, with more equipment. After memberships began to decline, it became impossible to maintain this expense and the office was moved into a private home. DeCampo writes that "this was to be the first of about 5 different moves..as members could only tolerate having an office in their house for so long...usually about 6 months or so. However these moves meant that access to the local office was becoming more difficult for people who had no transport." Memberships declined still more. The consequent decline in funding meant that the newsletter had to be left off at various locations rather than posted, and this meant that fewer members received it as many people did not get around to picking it up.

Another problem then arose. De-Campo writes that "there emerged an imbalance between those that held a large negative eco account (up to 3,000 ecos...a limit set earlier on) and those who had a large positive eco account (many of whom were local businesses trading with a 10% eco component...as well as ordinary members). The members with the positive eco account complained that they could not spend their hard earned ecos! Membership dwindled again as a consequence."

"By mid 2001 (he writes), the annual meeting came up...not a single person put forward for any of the positions. Due to the laws of incorporation, this meant that BMLETS had to de-incorporate and cease all business/trading. The members who were present at this "crisis" meeting voted to de-incorporate and then followed on with what other possibilities could emerge. A handful (5 or 6) of die hard members continued to meet for about 6 months."

Since then, he writes, there has not been much happening. "Some of the younger, keener ex-members have also left the mountains. Many of the longer term members have moved onto other fulfilling projects. September 11 has shattered many."

He believes that many of the record-keeping problems could have been alleviated by the adoption of a zero-balance-account system, such as is described in the Time Dollars website, and also by the use of book-keeping software. After de-incorporation, some people had the idea of simply keeping their own individual records of transactions, but this hasn't happened in practice so far. De-Campo comments "I think people feel safe in a kind of system, although there are still a few ex-members who help each other out, out of friendship really".

However, with the November 2000 designation of the greater area of the Blue Mountains as a World Heritage listed place, the local government has set up an agenda for the Blue Mountains to become fully sustainable within the next 25 years. De-Campo writes "there are many opportunities here that will emerge, I feel, in the next 2 or 3 years...so keep your fingers crossed and wish us good luck!"

He adds that "the LETS system did work fantastically here...my feeling is that for something to really last and take root in a place, it needs to emerge from the heart / core of the community and be driven by everyone at all levels. Then you can be sure that that kind of dynamism sustains itself as well as the "system" it exists for. It is still working well in some smaller rural communities; see
www.lets.org.au."

Michael Linton is currently focusing on the development of a type of LETS called Community Way. He describes Community Way as being intended to provide a gentle introduction to LETS for communities that are interested in experimenting with local currencies but don't yet want to plunge into development of a full-blown LETS. Community Way has three groups of participants: local businesses, community groups, and ordinary people. Signed-up businesses make donations in local money to community groups of their choice, who thereby acquire badly-needed funding. The community groups can then use the money in a variety of ways: they can spend it in the signed-up businesses (who would undertake to accept local currency for a certain percentage of transactions); they can use the money to top up wages of employees; or they can exchange the money for Canadian dollars with ordinary people. Ordinary people would have an incentive to exchange money because they would know that by doing so, they are helping the community groups, and they would have the added benefit of being able to spend the local money in the signed-up businesses.

The websites at Community Way and Wildfire Community Currency contain information about Community Way projects, as well as general information about LETS. The latter site includes an array of audiovisual material designed to provide a clear introduction to Community Way.

The websites at LETSystems and Open Money also contain information about Michael Linton's LETSystems. The www.j-lets.net website contains information about Open Money (a LETS project) in Japan.

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The units in which we write out cheques are not Irish pounds but Reeks (after The Reek, the local name for a nearby holy mountain, Croagh Patrick) and every six months or so we bring out a new issue of a directory listing the goods and services which members are prepared to supply for them. Of course, members need to know what is going on more often than that and so, each month, along with their statements, everyone receives a set of supplementary pages for the directory listing new entrants' skills and a newsheet reporting what's going on. It's a lot of work preparing this material but those who do it find it enjoyable and get paid in Reeks for their efforts.

When we were planning the Westport system we were worried that settling all our transactions by cheque could prove cumbersome because each cheque would take a member's time (for which he or she would have to be paid in Reeks) to process through the computer system, an elaborate procedure just to buy a pound of carrots. And, as people without conventional bank accounts are reluctant to accept payment in national-currency cheques, we also felt that people outside our system would be reluctant to be paid in our cheques even though they would be able to spend them with members by endorsing them on the back . This, we thought, would make the system undesirably exclusive because there would be no way for waverers to use it casually before committing themselves to becoming members and paying the entrance fee. We therefore decided to issue Reeks tokens for use in small transactions and for paying non-members who could spend them at the stall we operate once a week on market day or in the cafës and shops which have joined our system.

Because other things got greater priority, it was almost 18 months after trading began that the tokens appeared. They had been designed by a member, scanned into a computer and run off on a laser printer ten to an A4 sheet. Each sheet had then been laminated between clear plastic, guillotined, and the individual tokens validated to make them hard to forge with an embossing stamp bearing the words 'Meitheal na Mart' the name of the co-operative society we had registered to run our LET system. Each of the five values - they are issued in denominations of 1, 5, 10, 20 and 50 Reeks. - had been printed on a different coloured paper and the tokens were the right size to be kept in a credit-card wallet. How did they work? Well, physically they were excellent. Tests showed that they could be washed in a jeans pocket twenty times without losing legibility. But practically, for all the good they were doing six months after they came out, we might as well not have bothered. "They've never really been promoted but the number of people using them is slowly increasing " commented Ben Ryan, who runs the system's market stall and issues tokens in exchange for a cheque to members who want them. "The thing is, they are not really necessary as members can buy from the stall without using cheques just by signing for their purchases in the book. But I did pay two non-members with them and they joined afterwards"

Besides experimenting with tokens, Westport is slightly unusual in that the Reek is a time-based unit which represents a minute of average working time. We use this non-national-currency-based measuring stick because we do not want prices within the system to be automatically identical with those outside and also because we do not want the tax and social welfare authorities to be able to treat local currency earnings as if they were cash.

PANEL: 2003 update on the Westport LETS, by Richard Douthwaite

In 2003, ten years after it began, the Westport LETS system had withered away to just two members, the one trading with the other. Almost every other Irish system had either disappeared entirely or was in a similar state. This was due to two things. One was a boom in the Irish economy that made it much easier for people to find work and meet their needs without having to resort to 'funny money'.

Two serious design faults common to all LETS systems are the other reason. One fault is easy to explain. It is that a tremendous amount of work is required to run a LETS system because every transaction, no matter how small, has to be recorded twice, once as a debit on the buyer's account, once as a credit on the vendor's. A simpler payment method is needed and it is a pity that the tokens introduced by Westport LETS never went into general use. It is significant that the Argentinean LETS systems quickly abandoned the use of cheques and moved over to paper notes called creditos when the collapse of that country's mainstream economy meant that thousands of people wanted to become LETS members and trade.

The other fault is more serious and less easy to correct. It is that LETS currency is created in the same way as conventional currency - by someone going into debt - but that, unlike conventional currency, LETS systems have no effective way of ensuring that debts are ever repaid. Even the term 'debt' is avoided., with the much more positive sounding phrase 'on commitment' being used instead. Most people who borrow conventional money repay their debts as quickly as possible to minimise the interest charges but as LETS systems don't charge interest, their members are not under this pressure. Instead, the standard LETS design is based on the assumption that, if the state of everyone's account is made public, moral pressure from other members of the system will be enough to force indebted participants to honour the trust placed in them and get back into credit in a reasonable time. Unfortunately, experience has shown that this does not work well even in small systems and becomes totally inadequate when membership numbers grow and the average member is known personally by a declining proportion of the other participants.

When a new LETS starts, the system is small and the group pressure to get out of debt fairly quickly works reasonably well, especially as most members know each other and are enthusiastic about the trading network they are starting. A honeymoon period of 18 months or two years results. However, as time goes by, two types of member become apparent. One type regards the LETS currency in the same way as conventional money. Their gung-ho attitude is: "Great. Let's earn and spend as much of this new money as we can" And they do. They pour enormous energy into the system, working for, or selling to, everyone they can and spending their earnings with panache. The second group, however, is much less energetic. Sure, they like having keen people coming to do things for them, but actually earning the LETS units to pay the system back, well, that's not so good. Working off their growing debts would mean inconveniencing themselves and, as there is insufficient pressure from anyone in the system to force them to do so, they increasingly don't. And so the enthusiastic members inevitably find that they have large credit balances in their accounts that they would like to spend if only they could find anything desirable to use them on while the more laid-back characters who should be meeting the enthusiasts' demands to discharge their heavy debts are not sufficiently motivated to do so. Accordingly, with more LETS units than they know what to do with, the one-time enthusiasts cease to trade. This deprives the system of most of the energy that was driving it along. Consequently, as they are set up at present without any adequate means of ensuring that debts are honoured, LETS operate as near-perfect mechanisms for eliminating their most active and valuable members and devaluing their own currencies.

What few LETS members recognise is that, if their system is to work fairly and well, each accountholder should spend roughly as many LETS unit-days in credit as they do in deficit and vice versa. Such a balance would ensure that everyone only took out of the system as much as they contributed in both value and time terms. With a conventional bank account, anyone not maintaining such a balance pays interest on the shortfall but no LETS system as far as I am aware has a computer programme that allows its members to know how many LETS unit-days they should be in debit or credit to ensure that they have no net debit or credit balance over the course of, say, a year. Moreover, even if a system had the software to make this information available, it would still almost certainly lack a mechanism to force its more debt-prone members into line especially as the idea of forcing members to do anything is against the LETS ethos. Many people join systems attracted by the idea that they rather than a bank manager or a committee will decide how much debt to take on and when to repay it, and once a system has started on this basis, if the experience in Westport is any guide, it is almost impossible to get its members to agree to its reform.

PANEL: HOW LETS EARNINGS ARE TREATED FOR TAX

One of the first questions many people ask about local currency systems is how they are treated for tax. For members, however, the question rarely arises because either their national currency incomes are insufficient to place them in the tax net in the first place or, if they are income tax-payers, because they do so little of any one thing within the system that the tax authorities are happy to ignore the tiny amounts of imputed income involved. "There's nothing like a detailed account of dog-walking or granny-sitting to convince and inspector that further investigation is likely to be less than cost-effective" says Angus Soutar, who has advised British LET systems on tax and worked with Michael Linton to set up Greater Manchester LETS.

As a result, only those members who do part of their normal business or profession through a LET system are liable for income tax on their local currency earnings. For example, if a solicitor agrees to accept payment of his fees in the local unit, he or she would have to declare these earnings for tax at the national currency value they placed on them. Even in a system which nominally tied its unit to the national currency, this would not necessarily be one-for-one but systems using some other basis of valuation obviously have an advantage when it comes to convincing a tax inspector that this should not be the case.

"Two of our members, both alternative health care practitioners, have submitted tax returns listing their LETS earnings" Val Oldaker wrote in the LETSlink newsletter [5]. She belongs to the Newbury system whose NewBerry (NB) is a time-based unit with no fixed parity with Sterling. "In one case, the inspector took the view that since the standard, listed, rate for the treatment was £20, this meant that the value of the 25NB currency received was £20. In fact, one of the reasons that the alternative health people are so keen on LETS is that they are primarily interested in health, not money, and if a patient who needs help doesn't have any money, they will often be treated for nothing, or very little. If such a patient joins LETS, at least the practitioner gets something, So we managed to convince the inspector that the choice in treating a LETS patient was not between 25NB and £20 but 25NB and nothing. He said that 'as long as you can prove that the practitioner has treated the patient for little or nothing, then we can use this figure as an exchange rate.'"

The other practitioner produced a 25NB cheque which the inspector was claiming was worth £20, endorsed it on the back and handed it over to his receptionist in payment for an hour's telephone answering. "How can you explain the fact this cheque, by your calculation, has devalued from £20 to £3.50?" the practitioner asked. "The officer tied himself in knots trying to be fair, by realising that the value of the NewBerry is dependent on what it is spent on, rather than what is earned. So we'd be taxing spending, not earnings but the Inland Revenue has no way of doing that" Oldaker commented.

The best way out of this valuation problem would obviously be for the revenue authorities to agree to accept any income tax due on a local currency income in the unit in which it was earned but there seems little chance of this and, throughout the world, they insist on payment in the national currency. However, many members of LET systems are equally insistent that if a transaction is completely in the local unit, that unit should also be used to settle any tax liability incurred because a system designed to enable people to manage with less official money is obviously weakened if users are obliged to earn national currency to make their alternative arrangements work.

A lot is at stake here because, if governments accepted locally-produced money in payment of taxes, it would give that money enormous credibility. Moreover, since this revenue could only be spent in the area from which it came among members of the group which generated it, the area would benefit twice: first in terms of the jobs created when the tax was spent and, second, as a result of whatever the spending achieved. The payment of taxes in local units could suit local councils too, since it would give them an additional source of income independent of central government, something they badly need. But national governments are going to be very unhappy to see even a trivial part of their financial power slip away.

Sooner or later, someone who has sent his tax inspector a cheque drawn on his LETS account and refused to replace it with one in national currency will court imprisonment on this issue. In Australia, several systems have opened accounts for the tax authorities and substantial sums have accumulated in them, which the government has refused to touch. In one case, after waiting two years for the their local currency taxes to be used, LET system members spent them themselves on the projects they felt were of most benefit to their area, a wonderful first for true local democracy.

The other major issue dividing local currency earners and the taxman involves the determination of just how much of a particular activity they can do before they are judged to be carrying on a business and therefore liable for tax. So far there is no definitive answer. John Bolger, a former tax inspector who now has his own practice as an accountant and tax consultant in Kilkenny, where he played a leading role in setting up a LET system, puts it this way [6]
: "The Revenue is not interested in someone who is doing very small bits and pieces. Whether someone is carrying on a business is a matter of degree and a pragmatic approach must be taken. However, if the person is not carrying on a business, whatever he or she receives is not taxable irrespective of whether local units or national currency is taken in payment."

Frank Brennan, perhaps the leading Irish tax consultant, agrees [7]: "Nothing in the LET system would bring a person within the tax net who might not otherwise be there. If, for instance, I give someone a lift in my car and even though they might give me a gratuity, that will not constitute taxable income in my hands since I am not in the business of providing taxi services. The position is obviously different for somebody who is in that line of business."

An identical position has been taken by the Inland Revenue in Britain: anything earned from one's normal line of business is taxable, whatever the currency used in payment. Other activities constitute 'social favours' and are tax exempt. In both countries, therefore, there is a strong incentive for anyone paying income tax to forget their day job and do other things entirely when they join a LET system.

We feel that a LET scheme which claims that its unit is of equal value to the pound or the dollar is deluding itself because everyone would always prefer to take payment in the national currency instead of the local one if they were given the option since the latter can be spent in only a limited number of ways among a limited group of people whereas the former can purchase almost anything anywhere. In view of this, it seems best to make our local unit as different from the Irish pound as possible.

Both time- and national-currency-based units work well as measuring sticks. However, on balance, I feel that non-monetary units are preferable if only because they makes it more difficult for people to quote prices in a mixture of national and local currencies - something which LETS members quite reasonably wish to do since they cannot live by earning local units alone. However, since the need to use national currency alongside LETS units undermines the object of establishing a LETS in the first place, it is also quite reasonable to make rules which restrict it. The system in Katoomba, New South Wales, for example. says that members cannot use its directory to advertise anything if more than half the price has to be paid in Australian dollars.

Groups should be constantly striving to eliminate national currency supplements. If a mechanic working within a LET system has to buy parts to mend a car, he will naturally pass whatever they cost in national currency cost on. Ideally, however, his charge for his time should be billed in the local unit alone. True, because of his overheads, he will need to cover, say, 30% of his labour costs in national currency but he does not have to collect that 30% on every job and he can charge LETS members 100% local currency on work he does for them because non-members will be paying 100% cash. All he has to do is to balance the amounts of each currency he gets over a month, not on each transaction. The fact is that every LETS member incurs some national currency cost on every transaction they do, even if it is only that of making a 'phone call . However, so long as everyone’s national currency costs are more or less the same, none of us will be any the worse off if we don’t charge each other for them and we won't need to have national currency moving round between us to keep our local currency system running.

Indeed, it is sometimes possible to charge 100% local currency prices even when one has had to cover considerable national currency costs. During Westport LETS first summer, a woman who baked wholemeal bread every Thursday for sale on the stall we run in the market place found that she could charge all-Reek prices to members because sales to non-members, many of them tourists, provided the national currency to meet the costs of her gas and flour. During the autumn, however, two other members began baking bread after the first had started a drama course in Dublin, and found that, as the tourists had gone, so few cash sales were being made each week that their national currency costs were no longer being met. Unfortunately, but understandably, they began charging mixed prices, asking members to pay half of the cost of a loaf in Irish pounds, the rest in Reeks. Sales fell off alarmingly, dropping from 16 loaves a week to two, cutting their net earnings from baking to the point at which it was not worth carrying on. "They used to spend all their Reek earnings at the stall anyway buying eggs and cheese" a committee member said when we discussed this. "Now they've got to buy those things for cash, so they are not saving themselves any national currency by charging the mixed prices and they've got fewer Reeks to spend in the group." Today, three people are baking for the stall, all charging all-Reek prices on sales to members.

Apart from tax, the other big advantage of not fixing the value of a system's unit in terms of the national currency is that it makes it easier for LETS prices to differ from those quoted in pounds or dollars. Prices in the Westport system began to move away from straight conversions from the national currency after three months - and not in the way one might expect since, for the most part, they went down. This was because some members found that their services were not being used sufficiently often to pay off the overdrafts they were running up on their accounts so they cut their rates to get more business. Others found when the first directory appeared that their rates were seriously undercut by other members and brought them down when it was reprinted. A third group cut Reeks prices to give the system a boost.

Some rates moved both down and up. For example, a builder adopted the entirely reasonable view that if someone wanted to hire him, his time had to be worth at least as much to the other member as that member was listing as an hourly rate in the directory. He therefore began adjusting his charges to match the other member. "If they could do the job themselves they wouldn't bother to hire me so I must be worth at least as much as they are" he commented.

The Westport core group's policy is not to recognise or support any exchange rate between the local unit and the national currency and to discourage members from selling one to buy the other. Members are required to quote a Reeks price for goods sold on the market stall but are free to quote a cash price for the same items to enable them to be sold to non-members. However, it is up to them to set both prices and the exchange rate therefore varies from member to member. Some suppliers of goods in short supply - free-range eggs, for example - refuse to set a cash price at all because they want them to be sold solely to other members in order to develop the system.

Michael Linton's view on the exchangability of currencies is quite different and he sees nothing wrong in people with a good cash income but insufficient time to offer services through the system spending local units they don't have in, say, a restaurant, and then balancing their accounts by buying units from someone with plenty of time and an inadequate national currency income. "That way, everyone benefits. The people with a high income and no time support the LET system and the member with plenty of time and no cash gets the cash income he needs" he argues.

The Westport view, however, is that this approach weakens a LET system by underlining the inferiority of the local unit and that it is much better for people with cash but insufficient time to balance their LETS accounts by finding something they no longer want they can sell through the system, particularly as so very few actual goods are available through many LET systems that they amount to little more than diversified baby-sitting circles. In Westport, we make a real effort to ensure that an attractive range of goods is always on offer: this was one of the reasons we opened the stall. If someone offers, say, a bicycle for Reeks to balance their account, that's really good because it widens members' range of options and thus strengthens our currency.

Another of Linton's ideas we have decided not to adopt is his strongly-held belief that systems should not set limits on the amount by which members can overdraw their accounts. Linton thinks that, if the debit or credit balance of every member's account is circulated regularly, no-one's overdraft will get out of hand because if other members see that he or she is taking too much out of the system, they will refuse to deal with them until they have brought their indebtedness down. He adds that members with big overdrafts are in a poor position to refuse offers of local-currency employment because of the group pressure to cut their debts.

All this is true, and the Westport system publishes members' account balances by pinning them up on the stall. After all, all Reek overdrafts are debts, not to the system itself as would be the case with an overdraft at a bank, but to every other member, so it is right that members should know what they are. However, we felt that we would all be happier if we issued some guidance on what was a reasonable deficit to run and suggest to new members that they limit themselves to an overdraft of 4000Rs (approx £200) for their first month and then keep below whatever figure represents three months' average Reek earnings for them. What everyone fears is that some members might get themselves so deeply in debt that they will feel unable to pay off their obligations within a reasonable time and withdraw from the system, damaging both it and themselves.

Other systems have a similar guidelines, even those which claim not to do so. For example, Stroud LETS in Gloucestershire, one of the most successful in England, says that if it imposed credit limits it would destroy the atmosphere of mutual trust and empowerment which it is trying to build up. However, though it may not set explicit limits, it does have implicit ones and whenever an account seems to the co-ordinator, Sandra Bruce, to be getting its holder into trouble, she contacts the person involved, frequently with an offer of work, and helps them come back into line. Perhaps the only system genuinely not to have had limits might have been Michael Linton's own in Comox Valley. When this slowed almost to a standstill for several years for reasons we will discuss shortly, Linton's own account was the most seriously extended - his commitment[*] was the equivalent of $17,000 out of a total of $60,000 outstanding in a system which had turned over $300,000 - and outsiders have criticised him for using the system to get goods and services for his own benefit without putting enough back. Linton, however, rejects their charge: "During those three years there was no appropriate way within the system to pay me for my more than full-time work. My function was design, development, promotion, publication and training and it was related to longer-term issues, and required wider resources than the local network could possibly provide. Since I couldn't be paid I ran up my own commitment" he comments [8].

Linton acknowledges that this probably damaged the Comox Valley system. "Any non-providing negative can tend to detract from system performance and certainly, in this instance, mine did. However, it can also stimulate. And equally, mine did. We worked that out beforehand and took the risk with, in my view, considerable success. The system operated with these biases for almost half its first successful period."

An overdraft on a LET system's own account is often a substantial ’non-providing negative’ and thus a source of danger in itself. It can arise because once a LETS is

[*] Linton dislikes using words like 'debt' and 'overdraft' in relation to LETS systems, preferring to refer to a member's obligation to provide goods and services of equivalent value to those they have received as their 'commitment'.

running there is no need for the committee or anyone else who works for it to do so unpaid since they can always be given local units to recompense them for whatever they do. Moreover, committees often feel that membership subscriptions do not have to be adjusted to cover all the setting-up costs while the system is going through its development phase. Why should early members have to bear the entire cost of something which, everyone hopes, will benefit a far greater number of people for many years to come? And so, the deficit on their system's account is allowed to mount up steadily. The question is: How far can it go without damaging or endangering the system? And the answer? Nobody knows.

Up to a point, a deficit in the system's account is good because it means that the average balance in individual members' accounts is positive and this encourages them to spend. Nobody likes incurring debts they can avoid or defer, even in a LET system. In Westport, we even considered giving new members several hundred Reeks the moment they signed up in order to get them trading in the system immediately. Instead, we decided it would be more effective to subsidise the stall's running costs until its turnover had grown enough to pay the members staffing it an adequate amount for their time. Everybody in the system benefits from having the stall because of the goods it offers and the meeting place it provides. On top of this, it is a good advertisement for the system and most new members are recruited through it.

PANEL: PAPER CURRENCY REPLACES LETS IN AMERICA.

The most successful local currency system in the US was started as a reaction to the Gulf War in 1991. "Our country was just being dragged along by the huge armaments manufacturers and the need for oil to fuel the automobile" Paul Glover, the man responsible, says. "I felt that something had to be done to build a local economy which would enable people to supplant these forces."

Paul, a journalist, graphic designer, ecological urban planner and Vietnam draft resister who once walked from coast to coast across America along back roads, had been back home in Ithaca, a city of 30,000 people and the site of Cornell University in upper New York State, for several years before he started the system. In fact, he had already helped establish a LETS in the city, but this, having traded for ten months and achieved about sixty members, ceased operations when the Community Self-Reliance Center, the organisation which had set it up and operated its computer system, closed down in 1988. The experience convinced Glover that a much simpler system was needed - specifically, one in which the currency unit actually passed from hand to hand without the necessity for computer records. It was not just the high level of administrative input connected with a LETS which drove him to this conclusion: "Paper currency is more readily used for smaller transactions. Our local Farmers' Market could not be bothered to report dozens of small LETS transactions on market days. Now we're using paper money we find it moves faster than LETS credits, involves more people spontaneously and is more fun" he says.

A friend of Glover's, Patrice Jennings, had analysed the LETS experiment for her Master's thesis at Goddard College and together they devised the Ithaca HOURS scheme to avoid the worst snags her research had revealed. "There's no law against issuing a hand-to-hand currency if it doesn't look like US dollars, and it gets around all the record-keeping problems that we had encountered with LETS" Glover says. "I got about ninety people to back me by paying a minimum of a dollar to advertise whatever goods and services they were prepared to sell for HOURS in a newspaper I told them I was going to bring out. I don't think many of them really thought that very much was going to happen. In return for their money, I paid everyone four Ithaca HOURS so that they had some currency to use when trading began." Each HOUR represented a typical hour's work and had no exact monetary value at this stage in the system's development.

Glover then spent $300 to print 5,000 copies of an 8-page tabloid newspaper which contained 260 advertisements and gave details on how the system would operate. He distributed the paper, *Ithaca Money*, throughout the city in November 1991. "One of the problems with LETS is that the lists of members and the goods and services they want or are offering are distributed only to members: this means that only limited circle of people get the chance to participate. You've really got to get information about the system into the hands of the whole community, not just part of it. A newspaper seemed to me to be the best way to keep everyone informed" he says. "Moreover, like other newspaper editors I'm not responsible for supplying the tax authorities with information about the business affairs of my advertisers. If I was co-ordinator of a LET system I would have to do so as in the US barter transactions are taxable [9]. We are not a tax avoidance scheme and I announce in every issue of the paper that it is each participant's responsibility to report to the IRS the dollar value of any professional trades made."

Trading began slowly once the paper appeared but grew month by month. By late 1993 when I visited Ithaca, thirteen editions had been published and 4,300 HOURS worth $43,000 were in circulation, the national-currency value of an HOUR having been fixed at $10, the average level of wages and salaries in the Ithaca area. "Initially, we just said to people 'Value them at whatever you think an hour's work is worth' and different businesses used different rates, which varied from $6 to $12.50. Eventually, though, we decided to standardise on $10. It makes life easier" Glover told me. "This does not mean, though, that offering an HOUR will buy you 60 minutes of every member's labour. We haven't felt it necessary to require professional people accept the same rate of pay as other types of worker. It's seemed more important to try to get the lower rates up but we've seen professionals cutting their rates in the spirit of equal pay. Most participants are getting far more spending power per hour when they are paid in HOURS than they do when paid in cash, so we can more readily afford professional services.

"HOURS are real money. They are backed by real people whereas Federal money is backed by nothing at all, unless you count four trillion dollars of national debt. If critics tell me HOURS are just Monopoly money, I point out that, on the contrary, they are anti-monopoly money because they would never be accepted by the huge corporations" he continued, proud that when a thief robbed a restaurant which accepted HOURS he went out of his way to take the HOURS as well as the regular cash. "They were kept separately. He didn't just pick them up with the rest of the money. That really demonstrates the extent to which they've been accepted. HOURS have also been used as the pot in a game of poker and because my landlord will take my rent in HOURS, I can pay for about 95% of what I need with them" he said. Glover earned 447 HOURS in 1993 from selling display advertisements in *Ithaca Money.*

Almost every conceivable trade and profession offers its services through the newspaper and the list of 250 businesses which accept HOURS is impressive. At the end of 1995, it included two locally-owned supermarkets, six delicatessens, thirty of the stalls in Ithaca's weekly farmers' market, and several restaurants on at least one night a week. The city cinema was not only taking them but giving change in Federal notes and coins, while the Ithaca credit union, although not maintaining HOURS accounts, would take them for loan repayments and other fees. "When our printer started keeping the HOURS printing plates in his safe, I knew they were being taken seriously" Glover comments. "He now takes part-payment in HOURS for each batch of HOURS he has printed himself."

What about the possibility of forgery? "Everybody asks that" Glover laughs. "In the US it's been found that forgers don't bother with notes of less than $20 in value, so we've taken great care to make our two-HOUR ($20) especially difficult to counterfeit. It is printed on watermarked paper hand-made from cattails (marsh-reeds) here in Ithaca using rare antique numerators for the matching serial numbers and a type of printing ink which is no longer manufactured." The other denominations have embossed serial numbers and are printed with several colours. Notes are also date-stamped when first issued in a colour sequence only Glover knows.

Glover spends a lot of time checking that retailers, who tend to earn plenty of HOURS, are able to spend them satisfactorily so that they will be happy to continue to take them. "I encourage businesses to start accepting HOURS in a limited way and then gradually extend. That's much better than having them go in too big and then cutting back drastically" he comments. "It's best for a high volume business likely to have [a queue of] customers at the till to take a fixed maximum amount in HOURS rather than a percentage." If he finds a business with a build-up of HOURS, he goes through the complete list of goods and services available for HOURS with the owner or manager and helps him or her draw up a shopping list.

These visits to businesses and contacts with individual participants (the Ithaca system has no formal membership) allow Glover to assess whether it is safe to put more HOURS into circulation, although the actual decision on whether or not to do so is taken by a twice-monthly meeting over a pot-luck meal to which anyone can turn up. So far, the rule has been to provide each new participant with four HOURS when he or she places their first advertisement and to allow them to claim a further two HOURS as a loyalty bonus if they are actively using the system eight months later. Interest-free loans are also available subject to the offer of suitable collateral. "We've also put HOURS into circulation by making grants to local community organisations who spend them on participants' services" Glover says. "In fact, we've been titheing. 9.5% of our total currency issue is given to groups according to decisions taken at our fortnightly meetings."

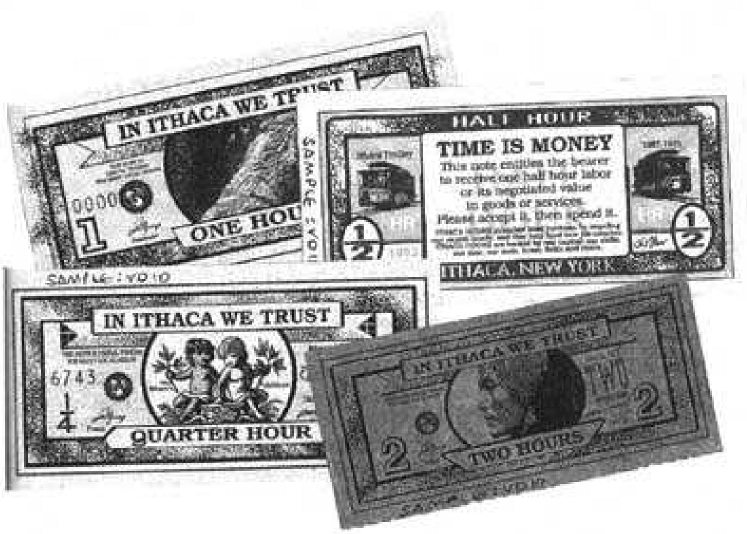
Since the Ithaca system has been growing, these methods of adjusting the number of HOURS in circulation have worked well. However, serious problems are likely to arise should ever the level of trading contract, as it might well do if the US economy picked up and participants found that, since they could earn Federal dollars more easily, they did not really want to be bothered with dealing in HOURS as well. In these circumstances, people might find it increasingly difficult to find anyone to accept their HOURS and the system could go into a tail spin, with holders dumping their HOURS for whatever goods and services they could still get from the diminishing number of people prepared to accept them. Such dumping would cause an inflation which would further undermine confidence in the system and could well lead to its collapse.

The chief structural weakness with the Ithaca HOURS system, then, is that it lacks any means of withdrawing HOURS from circulation if the level of trading declines. Indeed, although his antennae are highly sensitive to changes in activity level, Glover has no precise idea of the total amount of trading taking place nor how many people are actively participating: he employs two part-time workers, paid in HOURS, to check that people are still prepared to accept the Ithaca unit before repeating their listing in a new issue of the newspaper. The beauty of a LET system, on the other hand, is that nobody ever needs to decide on how many units ought to be in circulation or to make adjustments to it. Each transaction creates the purchasing power needed to carry it out and, if participants pay their obligations off and drop out, the number of units in the system automatically declines.

Glover replies to this type of criticism by arguing that even if the US economy recovered dramatically, it would not remove the need for local currencies. "In the Great Depression, local currencies were issued primarily as emergency money when banks closed and when federal programmes gradually returned dollars to communities, the local issues faded away. Today, however, we can expect local currencies to become secure and permanent money supplements because millions of well-paying industrial jobs have been shipped overseas, forcing many communities to re-invent their economies on non-industrial lines. Consequently, these communities will not see dollars return even if what is left of American industry prospers. Moreover, the supply of dollars has become so monopolised by the big corporations that money will have to be created locally for use by small enterprises and traders whatever the national economy does.

"Minimum-wage service jobs keep 20% of Americans below the official poverty level, forcing millions on to public assistance or into crime. Ithacans need so much more money than we have for food, rent, clothes, fuel and pastimes that we need to create it ourselves. Government, industry and the big corporations are leaving us behind. That situation is permanent. So, therefore, is our money" he told me in a letter.

Although it might have seemed at the outset that much less work was going to be required to operate a hand-to-hand currency than a LET system, this has probably not been the case, although Glover points out that a lot of his time was taken up by the continuing process of inventing the system and responding to contingencies. When I met him, Glover had just completed almost three years of much-more-than-full-time unpaid work to get the system going, not even issuing himself with HOURS to compensate for the effort he was putting in, although he had received five small grants during the period. Fortunately,



though, that period of hardship was ending: he was finding it increasingly possible to delegate his work and the local credit union was paying him a regular stipend.

Glover thinks that discussing whether LETS or HOURS is superior a waste of time. "We will prosper by experimenting and learning from each other rather than theorising. I'm impressed by what I hear about LETS in Australia and include a news story I wrote in 1986 about the Ithaca LETS when that started up in case people want to try a LET system."

The fact is that no local currency of any type will thrive and develop unless there is at least one person prepared to put a great deal of effort into its first two or three years and, if at any stage Glover had limited his commitment, the Ithaca HOUR system would have been just as likely to collapse as the LET system which preceded it. "If I was hit by a truck even now, people would look at their money and start to question it so I'm institutionalising the system to make it less dependent me" Glover says. At the moment, the only formal structure behind him is an advisory board, which meets monthly, but the system is a legal entity as it is covered by the charter of the former Community Self-Reliance Center.

As part of the institutionalisation process, Glover intends to hand over to others some of the work selling advertising in the newspaper. "I've exhausted all my contacts by now" he says. "New people will be able to gain access to groups which are culturally inaccessible to me." Another project which will help make the system less dependent on him is the opening of a shop through which people can sell things for 100% HOURS. "We had one on the main street last month but we had to close it after three weeks when the owner changed his plans. The store will provide an outlet for people who do things like baking bread or knitting sweaters and make it even easier for people who have earned HOURS to spend them"

Glover hopes that in a few years' time it will be possible to pay local taxes in HOURS and that almost all locally-owned stores will accept them. In the longer term still, he hopes they will help make the Finger Lakes Bioregion far less dependent on distant corporations and resources as part of a national change which turns the US into a nation of strong ecological local economies rather than a single national one. For the present, however, there is no doubt that the Ithaca HOUR works well for almost everyone who uses it. Hundreds of thousands of dollars worth of trading has been done and at least three thousand people have participated. Moreover, by the end of 1995, twenty other places had started HOURS systems.

"HOURS changed my life" Bill, an architect, was reported as saying in the system's newspaper, which carries success stories in every issue. "I had no jobs, was out of money and was scared. I got two jobs through *Ithaca Money* which kept food on the table and turned out to be steady work. One of these employers has become a good friend. Now I've got a third major HOUR job, very creative and exciting. There's a lot less stress associated with HOURS and they're fun to spend." Susan, another satisfied user, added: "I trust a person more who has HOURS in their wallet. It means they're invested in Ithaca and that they are willing to be open-minded about the value of labour."

The 200 similar testimonials which have been published so far demonstrate that, despite the HOUR's undoubted economic impact, its most important achievement so far has been to bring people together, create friendships and build community spirit. As Lynn, another user, told *Ithaca Money* "HOURS bring back the sense of co-operation and interdependence, of a more personal and caring economy."

2002 update on Ithaca Hours by Caroline Whyte

Ithaca Hours have continued to spread and the system has thrived in the last eight years. There are currently 400 participating businesses and 65 community organisations involved, and $85,000 worth of Hours are in circulation. Stephen Burke, the president of the Board of Directors, says "we're in the adolescence of our development". He envisions the system as continuing to grow and develop for at least ten more years.

An important priority now, according to Burke, is to encourage the spread of use of Hours to people not necessarily associated with the "alternative" community. This was one of the reasons for establishing a board of directors to administer the currency; a group of people with differing backgrounds can probably communicate more effectively with a broader mix of people than one person can.

Burke thinks that whereas five years ago some local people would have dismissed Hours as being "hippie currency", now they should be more open to using the currency. A strong argument can be presented to bolster the case for accepting Hours; independently owned businesses which accept them have an advantage over large box stores, which generally would have cheaper products than small businesses but which would never accept local currencies. Burke is hoping that the increasing amount of positive media attention Hours are getting,including a slot in the ABC news, will also bolster his case. He stresses that "the system's only values are for people to help themselves and help each other"; ie, that all local people, regardless of different political persuasions, should be able to benefit from using the currency.

Burke emphasises the importance of forming alliances with strong organisations in the local community in order to make a local currency thrive. In the case of Ithaca Hours, the local credit union was an enormous help, as were the Green Star food co-op and the Farmer's Market. Other communities have benefited from the help of local elected representatives, who were able to get the media interested. Burke stresses that it's important to forge these alliances as early as possible.

The board of directors has been operating since 1998 and now runs the day-to-day affairs of Hours, as well as providing outreach to media. Thus, control of the system is no longer in the hands of Paul Glover. Glover comments that "I've been pretty invisible with HOURS for the past 2.5 years. The board has done excellent work issuing annual directories and a fine county-sponsored tourist brochure. This is especially impressive considering they are volunteers with jobs and families." He adds, though, that "the one part of the transition that's not been complete is constant on-the-street connecting with new people and asking retailers how they're doing."

Burke told me that the Board received a grant which (combined with local funds) enabled it to hire a staff-person for a year. The staff-person, Laurie Konwinski, worked a 20-hour week, doing administrative tasks such as "helping to firm up budgets, making committees run smoothly and taking minutes". These apparently small tasks added up to make an enormous difference, since they were the kind of tasks that volunteers find it hard to make time for. Burke would like to find a way to continue having an administrative person who is compensated.

He'd also like to find a way to compensate those who do media outreach, since a tremendous amount of time and energy is spent dealing with media and people doing research about alternative currencies. He said "we are like lab animals, being poked and prodded". Glover, for his part, said he would like the Hours system to create a regular job for someone to do the on-the-street work and connecting for Hour loans. "It's imperative to have someone doing regular retail relations, to make sure that a surge of new Hours is circulating well....the system has a great capacity to generate income by making interest-free loans which are partly repaid with dollars."

Demand for Hours has remained fairly steady, despite the ups and downs in the national and world economies since 1993. "Even in boom times, people would rather pay in Hours to have their roof fixed than in dollars." People can always do with more money and Hours provide a useful supplement both when the economy is booming and when it's faltering.

The idea of using Hours to pay local taxes is still being discussed with local authorities. There are issues concerning the legality of that kind of transaction. Another idea that hasn't yet been carried out is that of having a store in town that deals only in Hours. But there have been some other novel uses found for Hours. The Board of Directors recently made a large loan of 3,000 Hours to help the local credit union, Alternatives Federal Credit Union, build new headquarters. This should not only benefit the credit union but will also bring more Hours into circulation. The credit union is helping in turn by paying in large part for the printing of a new note, the one-tenth Hour (worth one dollar).

There's now also a successful program whereby Hours are given out to some employees as pay by community employers. The employees decide how many Hours they would like to receive as a proportion of their total pay, and they getthem as part of their pay packets. This has been an effective way to get new members into the system without their having to do something other than their ordinary job to earn Hours. It also helps the employer to disburse the Hours that they receive from customers.

The Ithaca Hours system has influenced the development of many other local currency systems around the world. There are about 20 local paper money systems operating in Japan, and systems are also in place in Canada and Mexico, as well as numerous parts of the United States. The E.F. Schumacher Society has also been instrumental in helping these systems get established. Its website contains links to information about the these systems.

There are two websites which deal with Ithaca Hours. They are somewhat out-of-date and will be updated over the next few months. One, at http://www.lightlink.com/hours/ithacahours/home.html , contains information about Hours' development and history, media coverage over the years and archives. Information is available in 17 languages. The other website, at http://www.ithacahours.org/, has information about current system activities and operations.

Paul Glover's book, called Hometown Money: How to Enrich your Community with Local Currency, and starter kit are available for $25 from PO Box 365, Ithaca, NY 14851; tel +1 607 2724330. It can also be "http://www.ithacahours.com/starterkit.html"target="newwindow"> ordered online by credit card. There is a video available in English and Spanish, which can be purchased together with the starter kit for $40. Glover is also working on developing the Whole Ithaca Stock Exchange, which is intended "to pull money from the stock market to Ithaca." The money is invested in local projects such as public tranport and improved housing.

The Alternatives Federal Credit Union is located at 125 N Fulton St, Ithaca , NY 14850, tel +1 607 2734611. fax +1 607 2776391, e-mail afcu@alternatives.org. Alternatives is a member of the National Federation of Community Development Credit Unions, which is described in more detail in a Chapter 4 update.

Even if it avoids the problems associated with a serious decline in trade, any LETS where the system's account is in deep deficit is bound to be afflicted by a subtle, insidious malaise because of a lack of balance between supply and demand. This arises because many members - a majority perhaps - will have credit balances in their accounts and feel that they ought to be able to spend them, whereas only a small number will be in deficit and feel that they ought to work their indebtedness off. Everyone's statement will give false signals because the system itself is not trying to provide goods and services to members to reduce its debts to the same extent that individual members owing the same total sum would undoubtedly be. As a result, people find credit balances difficult to spend and tend to lose confidence in the entire system. Management committees should therefore err on the side of safety and keep their system’s own overdraft very small.

Six months after trading began, the deficit on the Westport system account was equivalent to 80% of the monthly turnover[10], which seemed a lot. On the other hand, it was only 300Rs (approx £15) per head for each of the 65 members, which seemed nothing in comparison with the value of the system we had built up. Eventually we reduced the deficit by holding a party which people paid to attend. LET systems should always organise plenty of parties as experience shows that members generally trade only with other members they know, so an enjoyable event strengthened our system in two ways.

But what was the Westport system's value? In economic terms it is fair to say that, so far, most LETS systems have been disappointing. The Stroud system has a monthly turnover per member equivalent to only £15, which probably amounts to less than 5% of participants' average monthly incomes. In Katoomba, the comparable sterling figure would be around £20 a month, and Westport’s is much the same. Similar figures were produced by a survey of five English systems by Jyll Seyfang which showed that even when the 30% least active members were excluded, turnover per head ranged from a miserable £75 to a respectable £220 a year.[11]

These figures hide more than they reveal. In general turnover is low in Britain because the Department of Social Security does not permit anyone who is unemployed to participate in a LET scheme without risking losing all or part of their weekly benefit. This is on the grounds that for at least some of the period for which the benefit is paid, the claimant was 'unavailable for work' - despite the fact that in most cases no jobs with wages payable in national currency were available. As a result, not one unemployed person became involved in Stroud LETS in its first two years' trading, although the jobless are one of the social groups which stand to gain most from LET schemes. My impression is that British LETS members are generally people with low national currency incomes and some free time who join up for pleasant optional extras which they would otherwise be unable to afford. "Your members are only getting involved to the extent that they can afford to lose" an Eastern European visitor told the Stroud co-ordinator, Sandra Bruce, on one occasion. However, in Diss, Norfolk, Jyll Seyfang found them to be "predominantly middle-class people with 'alternative' or 'green' ideals and an adequate cash income who were attracted to the system by its relevance to these beliefs rather than for the economic benefits of the system."

Turnover per member is generally higher in the best Irish systems because the unemployed can participate wholeheartedly without risking their benefits. This happy situation came about because the Department of Social Welfare accepted arguments by Meitheal na Mart on behalf of all the Irish LET systems that it was in the public interest that the unemployed should be free to take part without loss of benefit because this would keep their skills alive, maintain their work habits and, since informal networks are so valuable to jobhunters, raise their chances of hearing about national-currency-paid jobs. Participation was also likely to maintain their health, we said, because many studies had shown the damaging effect that unemployment has on the health of the people experiencing it and their families, and therefore save the state resources it might otherwise have to had to spend on medical, psychiatric and social care. In August 1993, only two months after the first Irish system had started trading, the Department wrote a letter saying that it would not withhold benefits so long as LET systems did not 'begin to encroach on regular taxed and insured employment.' Such an encroachment would not, of course, be in anyone's interest and, immediately after the letter came, the Westport group introduced a rule which restricts members from doing more than 32 hours work a month on a regular basis for any one person for which they are paid in Reeks. We have also tried to convince our members that, now that a LET system is running, they should never pay cash to anyone working in the black economy. If they do, we point out, they will undermine both the national social welfare system and their own local currency network.

Both the New Zealand and Australian governments have adopted the same policy as the Irish and do not withhold welfare benefits from LETS members. Including single parents and pensioners, over half the Westport participants are on some type of social welfare benefit and LETS has greatly improved the quality of their lives. One young couple, she unemployed, he temporarily disabled after an accident, used the system to transform the garden of a semiderelict cottage they had just rented: rank grass and scrub was cut, a 200-tree shelterbelt planted and a rockery and herb-garden built and stocked. "If we had been paid in real money rather than Reeks, we'd never have felt able to spend it this way. Other things would have seemed more important" the husband told me. "But it's had a wonderful effect on the house and how we feel about living here."

In fact, as with most things in life, those who put most effort into a LETS get most out of it and every survey seriously underestimates the systems' economic importance to particular members. Just eliminating those members who did not trade in a particular month increases the average turnover in Westport to £30, for example, and the average level of trading each month by the most active 25 members over an eight-month period was £40, with the top four participants doing over £100 a month each. Other Irish systems do much more. In the Beara peninsula in West Cork, where a great deal of effort has been put into building a strong system, the weekly stall did £600 worth of business in a single four-hour period in November 1995 and the most active 25 members are estimated to do an average of £120 business each every month. In East Clare, the record sales figure for the system’s stall which operates only one day a month is £800.and its 25 most active members are estimated to do an average of £80 worth of business each a month.

The main thing any community contemplating starting a LETS should realise is that getting the system running is not enough and a local currency cannot show its full potential until those behind it have made a a real effort to develop businesses doing a substantial part of their trade through it. These businesses obviously get an enormous marketing advantage over firms which have to insist on 100% payment in pounds or dollars and effectively acquire a degree of protection against outside competition which, as we have discussed, national governments are no longer allowed to provide. In addition, to the extent that they can spend local units instead of national ones to cover their start-up costs, they can benefit from what is, in fact, an interest-free loan.

Naturally, a business selling a proportion of its output for the local unit will have to pay for some of its inputs in that unit too, and the willingness of its workers to accept part of their pay in the local unit could be crucial to its establishment and survival. Initially, these firms can be expected to have to limit the proportion of business they do for local money but as the number of them grows and linkages between them develop, the limits will relax and the amount of national currency which individual LETS members need to live their daily lives will fall.

The members-only nature of a LET system can be used to create commercial advantages. For example, it provides a way around EU food preparation, labelling and hygiene regulations which might otherwise make it financially impossible for anyone to begin making food products on a small scale. When an environmental health officer called at the Westport LETS stall recently, he told the member minding it that, as the food available there was only sold to members, the conditions under which it was made were of no legal concern to him. Other EU restrictions might not apply too. For example, it might be possible for a farmer to supply milk to other members through a LET system without it counting towards the sales he is allowed to make under his milk quota.

PANEL: CASH ATTITUDES vs LETS ATTITUDES

It is a serious mistake to think that approachs and attitudes customarily applied in the cash economy work equally well with LETS. Here are four points to notice:

1. While anyone being paid cash to do some work is at their employer's disposal, anyone being paid LETS units is at their own. LETS members tackle jobs as friends wanting to help out, not as people in financial difficulties prepared to do anything to be paid. This means that they must be allowed to arrange a time to do the job that suits their convenience as much as yours. And if they need to be collected from home because their partner has the car, you have to do it: only if you were offering cash would it be reasonable to suggest that their partner be inconvenienced. And, naturally, you offer your helper coffee and biscuits and make a good lunch. If someone doesn't like working for you, they'll never offer to help you out for LETS units again.

2. A LETS is just as much a social organisation as it is an economic one. If there is a big job such as clearing scrub to be done, don’t try to find one member to do it alone over several days. That's too much like paid work. Provide food and drink and get enough people to come together so that the whole task can be completed in a day. This turns the task into a party and its successful completion will leave everyone with a great sense of achievement. This way, you'll strengthen your system and have no trouble recruiting sufficient volunteers.

3. High street banks like customers with large credits in their accounts. LET system co-ordinators do not. In fact, members with large local unit credits in their accounts present a much more serious threat to a system than those who have run up large deficits. This is because those with hefty credit balances are among a system's most valuable members because they must have been providing goods and services which other members like to have reached their surplus position. Consequently, if any member amasses more units in their account than they are able to spend and cuts down the amount of LETS work they are prepared to take on, every other member will find their units less useful and harder to spend. In short, the system will begin to unravel. The top priority of every LETS co-ordinator should therefore be to approach members with strongly positive accounts to find out if they are experiencing any difficulty spending their units. If they are, the co-ordinator must find other members to supply goods and services the members with excessive balances want to help them bring their surpluses down.

4. "Money is a way of finding out who you can trust. After you have established that, it just doesn’t matter any more" Edgar Cahn, the originator of Time Dollars, the American system of service credits described in the next panel, told me once. This certainly proves true with LETS units very much more quickly than ever it does with national currency and your relationship with some LETS members you are dealing with regularly will soon begin to seem much more important than the balance in your account. After a little while it feels rather petty to put a value on each transaction and give or receive a cheque. Each party begins to give as they can, confident that they will always be able to take as they need. Mutual trust becomes paramount. The spirit of an old-style Irish meitheal gets reborn.

In its early days, all one can expect economically from a LET system is that it provide a useful supplementary income for the weaker members of the community and a safety net to which the stronger may have to turn if the world economy crashes. That's a lot in itself but the real benefits at this stage are not so much economic as personal and social and many members feel that it would be worthwhile launching a system for these alone. On the personal level, being forced to think of services to offer other members enables people to escape from the confines of their job and develop skills which would otherwise have lain dormant. For example, many people play a musical instrument reasonably well but would never dream of advertising for engagements in the local paper. But when a fellow-member of their LET system asks them to play at a party, they are delighted to do so, not because of the local currency they will earn - that just shows that their ability is valued - but because of the fun they will have giving pleasure to others. Trading through LETS, particularly if they do not confine their activities to their normal professions, introduces members to a wider circle of people than they would have probably come to know so well in any other way. A member of the Newbury system wrote in the LETSlink Newsletter that a 'virtual village' had been created in her town since trading began [12]

Despite these benefits, a LET system will only work well if there is underemployment and an inadequate supply of national currency in a region or amongst a social group: if everyone is fully occupied and finds that their activities are not seriously restricted for lack of cash, why should they bother to join a LETS and what economic benefits could it bring them if they did? A Time Dollar system (see panel) would be better in such a community.

PANEL: THE DOLLAR THAT DOES NOT WANT TO BE MONEY

In early 1994 only about ten LET systems were trading in the United States and their total membership was small. There were, however, over 150 Time Dollar systems operating with anything from a few dozen to several thousand members spread out across some thirty states. Were they filling much the same economic need? Since the cover of their inventor's book refers to Time Dollars as a new currency, one might be forgiven for thinking so, particularly as Ralph Nader's Foreword says that 'citizen action must rest on a new economic base: one that makes it possible for people to meet their own needs while working to rebuild community and revitalize democracy at a grassroots level.'

But while they have similarities, the two systems differ in many important respects and Dr. Edgar Cahn, a campaigning lawyer who began developing the Time Dollar idea in hospital recovering from a major heart attack, would be appalled if his creation ever became as acceptable as national currency, a situation which would be every LETS enthusiast's dream. "Money is ideal for strangers because you can get things with it regardless of whether you know the person you are dealing with or not. Its use preserves a degree of anonymity and does not build community and trust" Cahn says.

For him, the fact that Time Dollars can only be spent in a limited number of ways is a positive advantage since he wants them to empower people to meet social needs which can no longer be afforded in most modern economies. "Real money is all-purpose: you can buy anything with it" he says. "Time Dollars can only buy things of special value such as companionship, love and caring. Maybe we don't really want the things we value most to be up for grabs to the highest bidder." Revitalising a community economically is no part of his brief.

Time Dollars are earned by providing care for other people and can only be spent on buying similar care for oneself or for one's relatives and friends. The largest system is in Miami where volunteers' services include light housekeeping for the sick or elderly, deciphering Social Security rules, companionship, respite support for carers, lifts to doctors, the church or the supermarket, letter writing, reading to the blind, pet care, baby sitting, English and Spanish classes, sewing classes and adult day care. Whichever service volunteers provide, all earn the same rate, one Time Dollar per hour and, as with LETS, records are kept on a computer in the co-ordinator's office. Unlike LETS, however, the co-ordinator matches volunteers with clients, rather than having the latter hunt through a directory for a volunteer who seems right.

Many volunteers are elderly people who, on one level at any rate, rationalise their participation with the thought that by providing help now they are earning the right to call upon other members should they ever need care in the future. However, many programmes find it difficult to get volunteers to report their hours and since only 15% of Time Dollars are ever spent and no-one is refused care because of a shortfall in their account, Cahn believes the real reason people join is to be of service to others. "People must request help but it doesn't matter if they haven't the Time Dollars to pay for it. You lose your volunteers if you don't keep them assigned" he says.

It is because the volunteers primarily want to give, rather than to earn, which makes it so important that Time Dollars should not be seen as money and should have no monetary equivalent, that they should not be bought and sold. "Yet the fact that they receive something for their efforts is important, too, because it validates their contribution" Cahn says. "A teenager here in Washington DC who was earning Time Dollars doing yard work for elderly neighbours told me that the Time Dollars meant a lot to him because if he wasn't getting something his buddies would think he was a chump. Earning something he could give away gave him status. Time Dollars are a hybrid of the psychological rewards of volunteering and of payment. They are a form of money which is not a commodity."

As such, they permit people to do things which they would never do for cash. "A retired bank president would never mow a sick person's yard for money, but he'll do it for Time Dollars" Cahn says. "Market wages incorporate status hierarchies. Ask yourself if you would ask your mother to accept market wages to go next door to clean up a neighbour's house. Then ask yourself if you would have the same reservations about asking her to go over and help a sick neighbour by cleaning up and accepting Time Dollars so that Granny, living across town, could be picked up and taken in to the doctor. Price is not the issue. It is status. To accept money for such a task implies one has accepted the market status defined by the wage."

Cahn lists other ways in which Time Dollars differ from national currency and yet are much superior to it if one is trying to build community. "Money is frictionless and 'efficient' yet what an economist calls inefficiency and friction are sometimes the glue that holds society together. Unlike the national currency, Time Dollars are issued and spent locally. What we are doing by recording them on our computer is acting as the community's memory in a way which wouldn't have been necessary a generation or two ago when people were less mobile. Real money knows no loyalty to community or even country. A dollar put into a poor community can exit in hours to a cigarette manufacturer or a Japanese electronics firm. It is estimated that of every dollar the Federal Government puts into an Indian reservation, 75 cents flows out within 48 hours. Moreover, the supply of real money is limited. The supply of Time Dollars is not - it only depends on the willingness of people in an area to help each other."

Cahn and his wife Jean were the co-founders of Antioch Law School in Washington which trained - and radicalised - its students by having them work under supervision on cases for the poor. "It was founded on the quaint idea that law and justice should have something to do with each other" Cahn comments wryly. But recovering after his heart attack in 1980, he found the tables were turned. "I'd always been the doer, the person who made things happen, and now here I was, lying in bed, and people were doing things for me. I was an object, a taker and I didn't like it. I'd been reading about other people - single mothers, the elderly, minority teenagers and the unemployed - that society puts on the scrapheap and then regards as takers draining its resources. And I thought 'Those other people don't like being takers any more than I do. There's got to be a way to enable them to meet some of society's needs.'"

As Cahn sees it, these needs arise because the informal, non-market economy has broken down over the years as households bought for cash more and more of the things they had previously provided for themselves. "McDonalds' now provides the meals, Nintendo and video tapes the entertainment, insurance companies and the police the protection, Medicare and Medicaid the nursing care and so on. Unfortunately, these suppliers can generally provide only 70% of what's needed - the police cannot be effective without community help, for example, nor can the schools educate children properly without parental support. But with both partners working to provide the money for these services, parents seldom have the time to fill these gaps. It's not that nobody has the time, but the available hours have been dumped on the elderly and the unemployed. The fact is that very few families, and certainly not the nation as a whole, can afford all the services they need if they have to be bought from specialists at market rates. To give you an example - supposing I gave up brushing my teeth myself and called in a dental hygienist to do the job for me. Whatever do you think that would cost? In the market economy one cannot even buy an hour of one's own time with one's take-home pay from an hour of work."

After Edgar had recovered, the Cahns moved to England for several months so that Jean could complete a course. This gave Edgar, whose doctorate is in English Literature, the chance to develop his ideas at the London School of Economics. He remembers some lively discussions on the relationship between economic efficiency and equity. "My argument was that you can only say something is efficient in relation to your objectives" he says. "The superior efficiency of the market economy turns out either to be illusory or to have hidden costs. It only functions as well as it does because it assumes continued uncompensated contributions and support from the very non-market institutions it is undermining." In 1986, the Suntory Toyota International Centre for Economics at the LSE published his ideas under the title: Service Credits: A New Currency for the Welfare State as part of a series of pamphlets.

That same year, back in the US with their ideas formed and three pilot projects under way, the Cahns persuaded the Robert Wood Johnson Foundation to give $1.2m to fund Time Dollar programmes for three years in Missouri, Washington DC, Miami, San Francisco, Boston and Brooklyn. Five of these six schemes are still running, the sole closure caused by the commercial takeover of the voluntary hospital where one was based. "If you pay a full-time manager and two part-time assistants it costs $50-$60,000 a year to run a typical system. This works out at about $1.25 per hour of care given, much cheaper than anything which can be provided in any other way. In fact, there are very real economic savings because people can be discharged from hospital sooner if they've got someone to look after them at home."

Since Time Dollars and LETS have different objectives, one primarily social, one more heavily economic, there is no conflict or incompatibility between them and many communities ought to seek to establish both, particularly as those becoming involved in each will tend to differ. At the very least, LETS groups can learn from Cahn's ideas on the conflict between community and national currency and seek to ensure that, in their enthusiasm to make their local unit as useful and as versatile as possible, they do not re-introduce too many of the bad features of the monetary system from which they are trying to break away.

Jean Cahn died of cancer in 1991 and, since then, Edgar has been working up to 80 hours a week with students and volunteers based at his house in Washington to spread the Time Dollar idea as a memorial to her. When I met him, he was working on ways in which Time Dollars could be used on public authority housing estates to develop tenant management systems, help families under stress, assist tenant-operated enterprises and reduce vacancy rates and building deterioration. "Too often what we call growth in the Gross Domestic Product is simply a transfer of functions from the household economy to the market economy. Every time we put a grandmother in a nursing home, that is a contribution to GDP. Every time we enable her to continue to live at home, it is not" he told me.

"Although there is a widespread understanding that the disintegration of the family is the source of most social problems, no-one asks how we can rebuild the non-market economy. This has led to a simplistic fixation on entry into the job market as the panacea for eradicating poverty. Yet the non-market economy is the only economy we control; the other, the market economy, is irreversibly embedded in the new global economy. We lack a viable strategy to deal with poverty because we are concentrating on the wrong economy."

2002 Update by Caroline Whyte

Over the past six years the Time Dollar system has evolved considerably. Edgar Cahn says that "there is now an acute awareness of the currency's value as a way of dealing with social problems. Many new programmes have emerged; some of these have been neighbor-to-neighbor programmes, but there are also an increasing amount of programmes which are more specialised and deal with a specific social justice movement."

One such programme enlists the help of children with conditions such as ADD, whom Cahn says "the system has written off". They are paid Time Dollars so that they can tutor younger children in computer skills. Cahn says many of these children have experienced a "remarkable turnaround" as a result of becoming able to perceive that they can contribute something to society. A similar programme involves women who have been jailed for drug abuse. They are paid Time Dollars on their release, for counselling teenaged girls on subjects such as HIV/AIDS. The women can then use Time Dollars to pay for their own treatment.

Another programme, the Youth Court system in Washington D.C., handles close to a third of the children admitted to the system. Young people are paid Time Dollars to serve on juries of their peers. The offenders, who have committed minor offences such as truancy, are sentenced to do community work. They also have to serve on the juries and are paid Time Dollars for doing so. Teenagers who go through this system have a lower rate of recidivism than other offenders.

In 2000 the Youth Court's Grand Jury publicised a major indictment of the D.C. justice system. As a result, two youth jurors were appointed to a commission which issued a report for the Mayor of D.C., detailing ways in which the juvenile justice system needed to be restructured. This report had a strong influence on the mayor and he put $2 million into restructuring, with another $2 million going into prevention. Young people in D.C. thus became involved with civic engagement and were able to introduce changes to the system.

Cahn says the Time Dollar system has "taken on many different colorations". Another program has involved day-laborors in the area outside DC. These workers have few rights and are paid low wages. They can earn Time Dollars by picketing outside the offices of employers and raising public awareness. They then spend the Time Dollars in community groups which give them support and advice.

A new enterprise which is being launched will pay young people Time Dollars to make videos abut seniors, with the seniors describing their lives and telling stories. The seniors will thus be able to create a lasting legacy. And yet another program, in El Paso, Texas, involves a clinic that serves 16,000 families. Patients with diabetes are paid Time Dollars when they change their nutritional vales so that they are eating a healthier diet. They can spend the dollars on getting support for paperwork and documentation (many of them are immigrants).

The idea of Time Dollars has spread to other countries such as Japan, China and South America. The fact that the IRS and British tax system have both made it clear the Time Dollars are tax-exempt has been a big help. Tony Blair has embraced the idea and provided funding for Time Dollar programs in the UK. In the US, grants from the Annie Casey Foundation and Ford Foundation have enabled the programme to be introduced in 14 cities.
Independent Time Dollar-type programs have also been established in Australia, Brazil, India, Pakistan and Cuba. Since the system is not centralized, there is no formal way of

keeping track of what programs are where, and each individual programme is somewhat different structurally from the others.

Time Dollars in Japan

In 1999, the Time Dollar Network Japan Non Profit Organization was established. Masako Kubota, who is the CEO of the organisation, tells me that the system there is directly based on the system in the US. One difference, however, is that many Japanese communities have designed paper currencies and coins to use because the Time Dollar software is not available in Japanese. Some tokens are even made out of bamboo.

Ms Kubota says "there are 13 Time Dollar systems operating in small communities in Japan, with about 40 to 60 people in each one". She estimates that at least 160 communities in Japan have some kind of local currency, which could be Time Dollars, LETS or Ithaca Hours-type money. The Time Dollar communities tend to be within a small, walkable geographical area. The age range of people involved is quite broad - from young mothers to senior citizens - although there is less involvement of teenagers than in the US, because in Japan they tend to have less spare time. However, one programme has had elementary school students interviewing seniors and designing books that tell the story of the senior's lives. This has been a great success.

As with elsewhere, in Japan there has been a breakdown in traditional community structures and extended families often no longer live together. Ms Kubota advises anyone interested in establishing a Time Dollars system to focus on the mission - rebuilding community and encouraging reciprocity - rather than the currency itself. She says that "the process of people coming together to discuss problems is the most important thing".

Ms Kubota's website about Time Dollars in Japan, (in Japanese), is at www.timedollar.or.jp . She can be e-mailed at masako@us.ehime-iinet.or.jp. She would like to set up a discussion e-group, and eventually she would also like a network to be established whereby people from different systems can communicate with each other. She says she is invited to so many places in Japan to talk about Time Dollars that she can't possibly keep track of them all.

The Time Dollars website is at www.timedollars.org. It's about six months out of date (as of August 2002) but will be updated soon. Cahn says that by October 2002 there will be upgrades available of the Time Dollar software system which is available on the website. By December there should also be Time Dollar checkbooks available, with magnetic coating and a barcode reading. Information about Time Dollar-type schemes in the UK can be found at www.timebanks.co.uk

Cahn has published a book about Time Dollars,
No More Throw-Away People. It can be ordered from the website for $17.95 plus postage. A video and manual are also available. The Time Dollar Institute is located at 5500 39th Street NW, Washington DC 20015.

PANEL

Womanshare is a highly successful time-exchange system that has operated in New York since 1991. As with Time Collars, credits cannot be exchanged and members work for each other on an hour-to-hour basis in order to value "the resources of each individual...independantly of the prevailing economy". Membership, which costs $50 a year, is limited to eighty women to foster group cohesion; the result is a long waiting list. "Having just women [is] easier", Jane Wilson, one of the founders, comments. She says that men tend to want to take over and to keep an exact account of trades. The group has a strong social side and potluck meetings are held every month in someone's home. Members are required to attend at least two a year and also to do at least six hours' work for other members each quarter. The wide variety of skills and services available within the group is publisized in a directory that is revised every three months.

2002 Update by Caroline Whyte

Womanshare is still functioning after 11 years. The group has never skipped a monthly meeting in that time. It is now self-managed, ie there are no directors as such, and in general its structure has become less formal. Diana McCourt, one of the founders, says that "it has developed into a community of women who exchange work, and we often ignore the structured exchange system". Membership went up to 100 for a while, but is drifting down now because the organisation isn't taking in new members.

The group has influenced many other organisations and Diana gets phone calls requesting information about it from all over the world. The Womanshare website is at www.womanshare.com. The street address is Womanshare, 680 West End Avenue, New York, NY 10025, tel +1 212 6629746.

LET systems are therefore very vulnerable to changes in the state of the mainstream economy. Since every LETS member prefers to be paid in national currency whenever it is available because that currency can be spent on a wider range of things, LET schemes will tend to develop during recessions as the national currency gets scarcer and to weaken or collapse whenever the national economy improves. In my view, it was the improvement in the Canadian economy in the mid 1980s which hit Michael Linton's original LETS in the Comox Valley, although he attributes its period of dormancy before it was revived by a women's group to the departure of a dentist who had been prepared to take payment in the local unit while he was reconstructing his surgery so that he could spend the proceeds on the building work.

"Our problem was that although we had 600 account-holders at one point, we never had more than about five shops which would accept our Green Dollars" Linton told me. "And these weren't large shops either. So when the dentist left the district, a lot of the builders and handymen who had joined the scheme in the early days and had sent their families to him for treatment found that they couldn't spend their Green Dollars that way and they weren't greatly interested in the services of the rest of the members, like the single mothers offering babysitting or aromatherapy." So the tradesmen stopped working for Green Dollars, which left the rest of the members with nothing major that they really wanted to buy either as they had been treating the LETS primarily as a way to get their houses done up. Trading more or less stopped. Linton disagrees with my theory that the underlying reason the builders stopped participating was not that the dentist had gone but that the economy had improved and they found it easier to get paid in cash. His explanation and my theory are not incompatible and both probably contain part of the truth. However, there is no doubt that the Comox experience underlines the importance of ensuring that people's real needs, as opposed to their peripheral pleasures, can be met through a LETS.

Comox Valley LETS was by no means the first local currency experiment.and Linton says that he spent almost a year researching earlier systems before launching it. "All the components of LETSystems were drawn from other sources* but the precise arrangement of them seems to [have been] unprecedented" he says. The commercial barter networks were one source and the Useful Services Exchange established in Reston, Virginia, by Harry Ware in the early 1970s was another. Where Ware got his ideas I have been unable to discover but records of people setting up systems to enable exchanges to take place without the use of official currency go back a long way. In 1696, for example, a Quaker, John Bellers, proposed that unemployed workers be paid in labour notes for goods they had produced with materials supplied by the system's central office. The office was to recover its notes by selling the goods either to the workers themselves or to others who had received notes from the workers in payment for food or rent. The idea was tried out

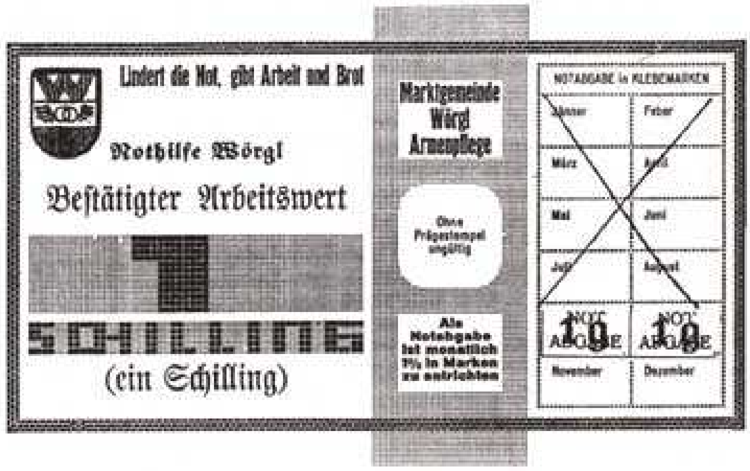
* The immediate precursor of LETS in Britain was Link, a scheme to help elderly people develop new social contacts and to keep mentally and physically fit by carrying out small tasks for other members. The first Link was set up in the London borough of Merton in 1976 by a health insurance company, British United Provident Association, and a group of charities, including Age Concern. By 1978, thirty-five systems were operating, all in urban areas, but a survey by Age Concern the following year showed that twenty-two had become inactive. The last surviving system closed in Bath in 1990. A local system was run by an unpaid volunteer manager who would pin up a card for each member on a notice-board in the system's office giving details of the work that each member was prepared to do; members would then try to match their requirements with the offers on the cards. However, although membership was open to all, most of those who joined were elderly, and there was an acute shortage of people offering to do tasks requiring physical strength. (The Bath scheme overcame this by getting schools involved). Members could be given enough tokens to pay for four hours' work on enrolment and could only get more by earning them from other members. The running costs of the system were covered by charities or by bring-and-buy sales and coffee mornings. This meant that they were almost always seriously underfunded: the Bath system managed on £1000 a year, including office rent. There seem to have been two main problems with Link apart from its age structure. One was that its attempt to treat everyone's time as of equal value (one token per hour) was not seen as realistic by many members, who frequently had to enhance their tokens with cash to secure someone with the skills or strength to do a particular job. The other was that members used the office only to make initial contacts with people living in their district and then made further contacts directly. This meant that people joining an established system found it difficult to get involved.

in Bristol and failed but was revived almost 140 years later by the philantropist Robert Owen, who republished Bellers' book. Owen, however, was no more successful than Bellers: his National Equitable Labour Exchange opened in 1832 and closed less than two years' later. The Bank of Exchange set up in 1848 by the French socialist Pierre-Joseph Proudhon*, best known for his view that property is theft, was an equally unsuccessful variation on Bellers' idea.

For our purposes, however, the most relevant experiments with local currencies were carried out in the 1930s in response to severe shortages of national currencies at the time. These shortages arose mainly because a national currency has to perform two functions - that of a means of exchange so that people can express the value of different goods and services and transfer that value to each other, and also as a store of value which holders can save up until they are ready to buy. These roles can conflict with each other. During an inflation, for example, the monetary unit fails as a store of value, encouraging people to exchange their cash for goods as quickly as possible, thus speeding the inflation along. Conversely, when prices fall in a depression, those who can hold on to their money do so because they expect to be able to buy whatever they need more cheaply later on. Naturally, their hoarding removes money from circulation, thus reducing other people's ability to buy things and accelerating the rate at which prices fall.

Reichmark hoarding became a severe problem in Germany during the economically depressed period immediately after the First World War and the Freiwirtschaft (Free Economy) movement developed to tackle it. In 1919, one of its members, Hans Timms, set up an organisation to issue a supplementary currency based on the writings of a friend, Silvio Gesell, who after making made his fortune as an importer and manufacturer in Argentina had returned to Europe in 1906 able, as Keynes put it, "to devote the last decades of his life to the two most delightful occupations open to those who do not have to earn their living, authorship and experimental farming." [13] Keynes devoted five pages of his major work, *The General Theory Of Employment, Interest and Money*, first published by Macmillan in 1936, to a discussion of Gesell's contribution to the theory of money and interest. Keynes regarded as "sound" Gesell's idea of increasing the cost of holding onto money by requiring stamps to be fixed to it to revalidate it regularly, although he pointed out that such people would switch their saving to substitutes such as

* Proudhon believed that the ideal rural society was one based on small peasant farmers who supported themselves by working independantly on land they owned. This brought him into direct conflict with Marx, who believed that big farms, like big factories, were bound to displace smaller ones because of their superior efficiency, and called for the social ownership of the land. Marx, who ridiculed Proudhon as a petty-bourgeois, also saw the small farm as a barrier to social and economic development and a 'leaden weight' on the working-class movement. One of the great tragedies of modern times is that when these ideas were debated at the Second Congress of the International Workers' Association in 1867, Marx carried the day, and henceforward the industrial movement not only gave its support to the destruction of the peasantry but also to industrialization.



foreign money, jewellery and precious metals to escape the levy. “I believe that the future will learn more from the spirit of Levi than of Marx,” he wrote.

The currency was called the Wära, a combination of the words *Ware* (commodity) and *Währung* (a currency unit which preserves its value). Notes were issued for 0.5, 1, 2 and 5 Wära, each Wära being worth exactly a Reichsmark - indeed, it could be exchanged for one in emergencies since the entire proceeds from the sale of Wära notes were lodged in a redemption fund. The key difference between the Wära and the Reichsmark lay in the fact that the former were costly to hoard since anyone holding some at the end of a month had to buy special stamps costing 2% of each note's face value to re-validate them for use during the following month. Naturally, this meant that anyone who received Wära tried their best to spend them before they needed to be stamped again and the new currency began to circulate rapidly among Freiwirtschaft enthusiasts throughout Germany. Timms' organisation used the 2% monthly levy for promotional purposes.

Gesell got the idea of making it expensive to hang on to money from brakteates, the thin silver-alloy coins which were issued by the rulers of the dozens of small independent states in what had been Charlemagne’s Holy Roman Empire from the 12th to the 15th centuries and which were at least as risky to hold as any of the commodities they could be used to purchase. Most of this risk originally stemmed from the fact that they could lose up to a quarter of their value overnight because whenever a ruler who had issued a batch died, all the coins bearing his head became invalid and had to be exchanged, at a 20-25% discount, for new ones bearing his successor’s features. Predictably, however, rulers soon began to recall brakteates as a form of taxation, sometimes as often as three times a year. Johann II of France, who ruled from 1350 to 1368, changed his currency no less than 86 times.

Having to use money which lost its value so quickly meant that people spent it as soon as they received it since even holding it overnight involved a risk. So, according to Fritz Schwarz, a Gesellian writing in 1931, instead of saving this fast-depreciating cash, people spent any surplus sums they might have on improving their houses and property and he points to the fine houses relatively ordinary folk were able to build during the period [14]. The construction work meant that there was a high demand for labour and wages were consequently good: an ordinary day-labourer could expect to earn six or eight groats a week which was enough to buy four pairs of shoes or two sheep. Working hours were short - there was trouble in Saxony when the mine-owners wanted to increase daily hours from six to eight - and there were at least ninety religious holidays a year. This meant that craftsmen, who took Mondays off to recover from over-indulgence on Sunday, worked less than a four-day week. It was a time of great prosperity, Schwarz claimed, with ’no difference between the farmhouse and castle'. Farmers wore coats with golden buttons and had silver buckles on their shoes.

Ironically, it was gold which brought this golden age to a close. A bracteate was generally 'a totally wretched and ugly little disk of metal, very thin, of low fineness, easy to lose, and easy to break'[15] which had no intrinsic value because of its low silver content and was therefore useless for international trade, particularly as it could be recalled at any time. Realising this, the Genoese and then the Florentines issued gold coins in 1252 and Venice followed in 1284. These new coins could act as a store of value as well as a means of exchange and allowed people to build up their assets in ways that did not involve employing others and thus passing their surplus around.. Moreover, as they spread, trading itself became much more difficult :"The means of exchange disappeared into socks and mattresses" Schwarz writes and as money became scarce, interest rates soared despite the opposition of the church. Some merchants found it more profitable to sell off their stock and lend out their capital and a gulf developed widened between families with an income based on interest and the rest of the population. The demand for labour dropped, wage rates fell and unemployment appeared. And, to cap it all, rulers had to find other means of taxation.

Nobody in authority took much notice of the Freiwirtschaft currency until 1931 when the purchaser of a defunct coal mine at Schwanenkirchen, a village with a population of five hundred in Bavaria, was able to re-open it by paying the miners in Wära which he had arranged they could spend in the village shops. In their turn, the shopkeepers forced their wholesalers to accept Wära and the wholesalers passed them back to their suppliers, who spent most of the notes they received on buying Schwanenkirken coal since there were few other ways in which Wära could be used. According to an account published in August 1932 in an American magazine, New Republic, the effects on the village were dramatic: "One would not have recognised Schwanenkirchen a few months after work had been resumed at the mine. The village was on a prosperity basis, workers and merchants were free from debts and a new spirit of life and freedom pervaded the town....Reporters came from all over Germany to write about the 'Miracle'" . The article pointed out that if Reichsmarks had been used in place of Wära, they would have been hoarded because of the uncertain times and the venture would have failed. Moreover, even if they had not been hoarded they would have dispersed all over Germany and there would have been little likelihood of their returning to Schwanenkirchen and increasing demand at the mine.[16]

Although only 20,000 Wära were ever issued by Timms' central organisation, some 2.5 million people handled them in 1930-31 as a result of their high velocity of circulation. Their success in Schwanenkirchen terrified the German government which feared they would cause inflation and after an unsuccessful court action on the grounds that Wära infringed the state's sole right to issue money, it passed emergency legislation in November 1931 to bring their use to an end. The mine in Schwanenkircken closed and its workers were plunged back into unemployment.

PANEL: MUTUAL CURRENCY SYSTEM PROVIDES BUSINESSES WITH CHEAP CAPITAL

Perhaps the best example of the benefits that can flow to businesses which join an arrangement to create a private currency is provided by WIR, the Wirtschaftsring (Economic Circle) co-operative in Switzerland, which, since its inauguration in October 1934, has grown into a massive organisation turning over 2,521m. Swiss francs (£1,200m.) in 1993 among its 60,000 account holders. Indeed, the WIR system is so simple, so successful, and saves its participants so much money by enabling them to obtain zero-interest working capital that it is surprising that similar systems have not been set up around the world.

Essentially, WIR is an independent currency system for small and medium-sized businesses. A company wishing to join contacts the head office in Basle or one of the six regional offices and sets up a meeting at which the firm's credit requirements and the collateral it is able to offer are discussed, just as they would be if it sought a loan from its bank. As first mortgages in Switzerland do not usually exceed 60% of the purchase price of a property, the collateral most frequently offered is a second mortgage on a house or business premises: in recent years, over 80% of WIR's loans have been secured this way. If the meeting is successful, a loan application is sent to the WIR credit approval committee which checks the security and obtains a report on the applicant from a credit-checking agency. If the report and the security are in order, the new participant is given a WIR cheque book, a plastic charge card and a fat catalogue listing other participants with whom the loan has to be spent.

Although the sums in WIR accounts are denominated in Swiss francs they are not Swiss francs at all since, unless one breaks the rules, they cannot be turned into cash, paid into ordinary banks or given to non-members. We will therefore call the system's units 'Wir'. Even when someone wishes to leave the organisation, he cannot get national currency out. As a result, the purchasing power created when the credit committee authorises a loan stays entirely within the 'ring', generating increased business for all participants. Secured loans of this type are cheap. In 1994 Wir mortgages carried a service charge of 1.75% and relatively long repayment terms could be negotiated; the charge for ordinary current-account loans was 2.5%.

The credit committee has a policy of restricting the total value of the loans it authorises to one-third of the system's annual turnover in order to maintain the Wir’s value. All repayments are made in Wir earned when the member sells his or her goods and services to other participants. Only the service charges on them have to be paid in Swiss francs, since the co-op itself cannot function without some national currency. Its other charges - a quarterly subscription of 11SFr. to cover the cost of the WIR magazine and a new edition of the catalogue and a levy of 0.6% of the value of each cheque lodged to a participant's account - are all in Wir.

Almost every conceivable product and service was listed in WIR's summer 1994 catalogue which included 167 lawyers, 16 undertakers, 1,853 architects and 18 chimney sweeps. "The main areas are gastronomy and the building trade while the odder categories are astrologers, piano tuners, matrimonial agencies, genealogical researchers and magicians. There's even a circus" says Claudia Horny from WIR's public relations office [17].Not all suppliers will take 100% payment in Wir, but with several sources listed for most products and services, it is generally possible to find at least one who will, particularly at slack times of year or during sales. Prices and payment terms for transactions in Wir are just the same as they would be for cash and, until recently, if a supplier insisted on getting a proportion of his invoice paid in national currency, two cheques, one in Wir, one in Swiss francs, were handed over at the same time. However, since the beginning of 1995, it has been possible to make combined payments of cash and Wir using a single plastic charge card.

In fact, the percentage of the Swiss franc price of the goods and services that participants will supply for Wir is discussed with each member when he or she joins and the service charges mentioned so far only apply to 'official' members who have agreed to guarantee to accept at least 30% of the payment in the system's unit. Members unable to give such an undertaking are called 'unofficial' and pay higher charges - 3.5% for current account loans and a 1.2% rather than 0.6% levy on the value of each cheque.

The system was set up as a co-op in 1934 by Dr. Werner Zimmermann and Paul Enz with some of their friends to overcome the currency shortages of the time. The group, influenced by Silvio Gesell, had as its motto 'Free exchange of goods and services without exploitation of our fellow man and without government coercion' and saw high interest rates as an aspect of exploitation. Initially, the idea was simply that businesspeople who knew and trusted each other would extend each other credit for purchases within their group, cutting down their need to borrow from banks. According to a 1971 report on the system'they thought they could transact business among themselves with a system of chits similar to IOUs that would cover at least part of the price of any transaction, the balance being settled in the conventional way.....(However) it was soon found that in order to bring about wider acceptance of these chits, and also to comply with existing banking laws and avoid financial losses, collateral was essential' [18]
.

This insistance on collateral might partially explain why WIR has survived and similar systems established at the same time in England, Germany, France and Austria have disappeared without trace [19].However, an official history of WIR produced in 1984 for its 50th anniversary suggests that WIR is the sole survivor because the other circles did not realise the significance of what they were doing and wound themselves up when the financial crisis was past [20]. But opposition from vested interests played a part in some cases too. Zimmermann and Enz visited circles in Norway and Denmark before starting WIR and when they returned to Denmark for a second visit, they found that the circle there had been closed by the government after pressure from the banks.

The structure of WIR reflects the original small-group concept. Although by the end of 1935, the co-op had 3,000 accountholders, only sixteen shareholders had any say in how the organisation was run. After 1939, additional shareholders were permitted but even today, only about 5% of participants hold shares entitling them to select the board of directors.

A Dutchman, Hank Monrobey, tells me he attempted to set up a rival to the WIR which would be open to anyone in the late 1970s but the venture was closed down by the Swiss police. Monrobey, a computer expert, had become familiar with the way the WIR worked in 1977 when he was asked to devise an electronic data transfer system to prevent members breaking the rules and selling Wir for Swiss francs. At one stage, the exchange rate dropped as low as 55% and as this figure was quoted on a electronic news screen at the main entrance to Zurich central station, WIR's prestige suffered.

Monrobey says that he structured his organisation, SYS Network, to enable it to avoid the constraints placed on the WIR by the Swiss central bank. There was a lot of public interest in it and two members of the Zurich branch of the Economic Crimes Police attended one of his presentations. He repeated the presentation at police headquarters a few days later and after he had finished, Monrobey says that the senior officer present told him that SYS could wipe out Switzerland's banking institutions and it would not be allowed to do so. Shortly afterwards, his Swiss partners were threatened with long and detailed investigations into their tax affairs and so much pressure was put on the Swiss president of SYS that he committed suicide. The network was wound up.

When Monrobey tried to set up a similar system in Holland in 1983 the reaction was equally hostile and a daily paper appeared with the banner headline "Monrobey is damaging Dutch Economy: Central Bank to Investigate". During this investigation, according to Monrobey, one of his associates told the bank's inspectors: "You can never stop Monrobey doing what he's doing. You'd have to beat him to do that." A newspaper got hold of the story and embroidered the words so that they read 'beat him to death' and next day when Monrobey was walking in the street, one of two youths on a moped took off his helmet and swung it at him. Monrobey saw the pair coming and tried to get out of their way but the helmet hit him in the mouth, damaging his teeth, some of which had to be extracted later. He is convinced that the attack was not a random incident but had been ordered by a commercial bank.

Then the tax authorities began their own investigation and in April 1984, a Dutch business magazine, FEM, published an eight-page cover-story about the network. "It gives the impression that he's a crook" a Dutch friend told me after reading the copy I gave her. "It doesn't say so explicitly, of course, but if you read between the lines". Monrobey’s wife was so upset that five days later she filed for divorce.

"She could no longer carry the burden of living in fear with a man who had decided to go against the banking wind" Monrobey says. "I decided to liquidate the network but before it was wound up the Central Bank's eight investigators had completed their report, saying it was the cleanest fiscal operation they had ever seen. The tax people said the same." He left for the United States to make it harder for his enemies to trace him. "I arrived in the US almost penniless because when I got there I found that my English partners had blocked my bank account in Europe to try to force me to go back there" he told me.

Today, however, he is back on his feet financially again and busy developing a network of ’Liquid Capital Circuits’ (LCCs) in the United States. An LCC is a communitycontrolled payments system: members lodge national currency to their LCC account and their account balance is recorded as ’electronic capital’ on a micro-chip in a special credit card, the DCN-Passport, which they carry. DCN stands for ’Dynamic Capital Network’ which links local LCCs and enables 'each member of the network to buy and trade with every other network member' wherever in the world their respective LCCs are located. In an explanatory brochure Monrobey writes:

> The LCC system revolves around consumers using the DCN-Passport for their normal purchases. Businesses which accept the DCN-Passport as payment will see a tremendous influx of new business as members of the LCC choose to patronise firms which support their local economy. As your business grows, the LCC will be there to provide you with the needed capital to fund your growth. The LCC will establish interest-free financing for additional inventory, new employee training, improved facilities etc. As your local LCC grows it willbegin to replace any current bank financing you may have. Your overhead will drop substantially as the LCC eliminates any interest expense. So you could lower prices, become more competitive, and still make larger and larger profits. The LCC quickly expands up your chain of suppliers, dropping their overhead and their prices. The net drop in retail prices soon becomes very large. It is a well-researched fact that 30% to 50% of retail prices consist of overhead created by the cost of capital in the supply pipeline. Imagine the competitive edge LCC businesses will have over others who fail to see the advantages of interest-free capital.[21]

Where does this interest-free capital come from? Monrobey explains that just as American Express or Thomas Cook always have a large amount of cash which they can invest from the sale of their travellers' cheques because of the days or weeks which elapse between the time a customer buys the cheques and the time he or she spends them, a LCC has a lump sum too as there is always be a period between the moment a member’s national currency becomes electronic capital and the moment the electronic capital is converted back to cash to purchase something a member needs from a supplier outside the system. "As the system grows, the electronic capital begins to have a life much longer than the the life of simple traveler’s checks.... this greatly increases the average time each cash dollar is at the disposal of the LCC for interest-free financing" Monrobey says. In effect, then, a LCC aims to keep its electronic credits circulating among its members for as long as possible before they are converted back to cash and, by linking individual LCCs, the Dynamic Capital Network stops credits leaking from the system even if they are spent out of town. By early 1996, however, Monrobey was still some way from establishing a viable system. Not one of the LCCs was really working, he told me, and none had more than fifty members.

Monrobey is very critical of the WIR which he says is not a good model for the rest of the world and is only able to continue because the Swiss are enormously self-disciplined in the way they think and work. He claims that the rate at which Wir circulate has been kept very low under pressure from the country’s banks. As a result, the prices charged by member-firms have not gone down in the way they would if the system had been working well because of the interest payments it would have enabled members to save. Too many members, he says, build up large surpluses of Wir which they use to build properties to rent. Construction and the restaurant trade are the activities which underpin the system, he says.

Current proposals for a mutual credit network in Britain seem simple by comparison with Bor’s. They were developed in the mid-1980s in complete ignorance of the WIR by

Christian and Diana Schumacher, the son and daughter-in-law of the author *of Small is Beautiful*, Fritz Schumacher. However, neither has had time to follow the idea up and so far, no system has been established, although talks took place with local authorities in the Sheffield area in 1994 and a hunt for market-research funding is going on. What the couple suggest is that businesspeople in a particular area should set up a committee which would determine how many 'bonds' each of their companies should be allocated by the rest of the group [22].

These bonds, which would be interest-free for three months and have parity with the national currency, could only be spent with other members of the group, exactly as with WIR. At the end of every three-month period, however, members would be obliged to bring their total holding of bonds back to its original figure. So if they had sold more to the rest of the group than they had bought from it and had a surplus of bonds in their account kept by the central committee they would receive cash for the surplus amount. On the other hand, if they had sold less to the group than they had bought, they would be required to pay cash to cover the shortfall. As the total cash sum due to accounts in surplus would be exactly equal to that received from the accounts in deficit, the committee would not be required to do any balancing itself unless a business in difficulties failed to remit cash to cover its shortfall.

"The quarterly repayments ... give a regular opportunity for the scheme's administration to detect problem signs in advance of a major crisis and for help and advice to be given" the Schumachers write in their project proposal. "If a member business collapses, its outstanding debt to the system would be legally recoverable in the same way as other liabilities. If this were not possible out of then proceeds of liquidation, then guarantees under [a mutual cross-guarantee arrangement] would have to be called." In other words, all the remaining members of the system would share the loss.

The Schumachers' aim in designing their scheme was to enable a network of inter-linked businesses to grow up in a particular area so that if one of them failed, perhaps because an outside customer had switched his orders for components elsewhere, there would be a high probability that other opportunities could be found. "Where there are already many businesses trading, these businesses themselves generate new business opportunities for other businesses and vice versa" they write. "Equally, where there are few businesses, then the possibilities to start new businesses are correspondingly fewer." They argue that the bonds would encourage businesses to place their orders with suppliers in their own areas and thus foster business development there.

Although the Schumachers mention that bonds would be of considerable help to businesses unable to raise adequate working capital, they deliberately avoid saying that banks would lose business as a result of the scheme for fear of alerting a powerful opposition. Nor do they stress how much interest participants might save.

"We've checked out the legal aspects as far as possible and it seems that there are no problems there" Diana Schumacher told me. "As a result, I don't see how the banks could stop a local trading bond scheme being started but it seemed a good idea not to provoke them too much." In view of Hank Bor's experience, this seems wise. A really effective alternative economic system will inevitably damage the profits of one of the most powerful groups in the world and their reaction to it is liable to be frightening and extreme.

How would the Schumachers' trading bond organisation differ from the business barter networks which have been operating for thirty years in the US and are now spreading in Britain and Ireland? The answer is very considerably, largely because of the difference in the motives of the people behind them. The commercial networks' aim is to make a profit for their proprietors rather than to boost business in a particular area. They usually charge a joining fee of £200-£300 and a 10% commission on each purchase. Their rules require all trades between members to be passed through them so that they can take their cut although they generally try to find a customer for whatever stock or services a business wishes to sell or a supplier of whatever it wishes to buy. The barter networks also limit the extent to which a company can take goods and services from the network without balancing it by supplying another member. "If we were doubtful about the saleability of a business's product we would make it an associate member and not allow it to purchase through the network until it had made a sale" says Pat Naismith, a co-founder of the Irish barter network, Contranet.

No commercial barter organisation would have reservations about extending membership to multinational corporations. Indeed, it was to facilitate giant companies that the first US networks were set up [23]. Moreover, although they might have a local base, they would see nothing wrong in arranging deals anywhere in the world. In short, commercial barter networks are part of the world economy rather than a means of promoting a local or regional one.

WIR's website is at www.wir.ch , e-mail basel@wir.ch. The street address for the main branch is Auberg 1, 4002, Basel, Switzerland., tel. 061 277 9111, fax 061 277 9239.

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PANEL: The spread of Bartercard, a commercial bartering organisation
by Richard Douthwaite (February 2003)

Bartercard, the biggest commercial barter company in the world, operates very much along LETS lines except that all its members are businesses. The explanation on its website of the way it works could almost have come from any of the thousands of articles written about LETS .

Bartercard member A needs to have his car serviced. He contacts Bartercard member/mechanic B who conducts the work. The final payment is 250 Trade Dollars. Member A produces his Bartercard. Member B seeks authorisation from Bartercard via the 24 hour telephone service. Bartercard debits 250 Trade Dollars from member A's account and credits it to member B's account. Member B may then use his Trade Dollars to purchase any number of products or services from other Bartercard members.

Unlike LETS, however, Bartercard has clear and enforceable rules about debt and these, together with the fact that it believes in charging serious money for its services, has enabled it to expand from its base in Australia, where it began in Brisbane in 1991, into nine other countries in less than ten years. It had 15,000 members in Australia in 2000 and a similar number in the rest of the world. Its joining fee in Britain that year was £795 plus VAT, and it charged a 5.5% commission in sterling and a 0.5% commission in trade dollars to both parties on each trade made through its system. This meant the company had money to employ staff, who are said to be of high calibre. It assigns an account manager to every batch of 100 accountholders to help those who find they have too many trade dollars or a high level of debt and to advise those who aren't trading very much.

In the UK, new accountholders are automatically allowed an initial £5,000 line of credit but the firm's account managers can vary this or freeze trading altogether. The firm is constantly trying to recruit but on a selective basis so that gaps in the range of goods and services available for trade dollars are filled and there aren't too many accountholders in one trade category in order to avoid excessive competition between them. Ideally, new entrants should have excess capacity, operate in a fairly broad market, a good reputation, and reasonably high profit margins. All trades have to be entirely in trade dollars and have to be authorised using a free telephone number before being recorded. Each new recruit is given a Bartercard - an embossed Visa-like charge card -and a zip-zap machine in which to place other members' cards to record transactions. This equipment might soon be obsolete, however, as the company announced in April 2001 that it was supplying 1,200 members in New Zealand with 'eftphones' - electronic funds transfer phones, which eliminate all paperwork.

In each country in which it operates, Bartercard publishes a large, attractive directory of the goods and services available from its accountholders (it would be wrong to call them members). These are largely financed by accountholders' advertisements. Bartercard also organises local trade days to enable accountholders to meet. However, it but does not rely on these two avenues to increase turnover through the system - its account executives are constantly trying to set up deals between accountholders because of the commission the company earns. Indeed, looked at in this way, Bartercard's charges aren't high - most firms would be happy to pay 10% commission to an agency for the orders it generated.

The company claims the following benefits from opening an account:

* Extra business, as the Bartercard staff are likely to introduce new clients.
* Interest free credit, and consequently, lower borrowing costs
* National currency is conserved as transactions do not involve the exchange of cash apart from the commission.
* No problems with debt collection as Bartercard will seek to get an accountholder's customers to join, thereby taking the responsibility for getting payment off its shoulders provided transactions are authorised.
* A marketing advantage over non-accountholding competitors.
* Less exposure to market downturns.

In 2001, the most recent year for which figures were available in early 2003, the company had 40,000 member-firms around the world. These were serviced by 1,000 staff and a turnover of $1,400 million was achieved during the year. Bartercard's website is at www.bartercard.com.

However, not far over the border in the Austrian Tyrol, another enthusiastic supporter of Gesell's ideas had been following events closely. He was Michael Unterguggenberger, the mayor of Wörgl, where local tax payments were seriously in arrears and the official treasury was in crisis because 1,500 of the town's 4,300 inhabitants were out of work. The type of auxiliary currency used in Schwanenkirchen - technically known as Stamp Scrip - seemed the answer and, after negotiating a loan from the local Raiffeisen (credit union) savings bank, the mayor printed notes with a face value of 32,000 Schillings in denominations of 1, 5 and 10. Only a third of these were ever put into circulation. In August 1932, the scrip was used to pay half the wages of the council staff including the mayor himself and, because the businesspeople of the town knew it could be used to pay local taxes they reluctantly accepted it in payment for goods, the fear of losing sales to competitors bringing stragglers into line. As the scrip, like the Wära, had to be stamped each month to maintain its validity. it was passed quickly from hand to hand, generating a rapid increase in trade. It was, in fact, spent in preference to national currency and in its first year, according to a 1952 German account[24] of the experiment, each local note changed hands 463 times on average whereas a typical national note was involved in only 213 transactions. Quite soon only the railway station and the post office would not accept the local money.

The traders took no risk in accepting Wörgl scrip as it was completely backed by the national currency loan which the mayor had obtained from the savings bank and left on deposit there. This enabled anyone holding scrip to swap it at any time for 98% of its face value in national currency. Very few people appear to have made the exchange because at 2% it cost more to do so than to pay the 1% monthly re-validation fee, but any local money which was returned to the bank or paid to the council in taxation was immediately re-launched into circulation in the town.

Just as in Schwanenkirchen, the effects of the 'auxiliary money' were impressive. In the first month, 4,542 Schillings were paid off in tax arrears, allowing a new public works programme employing fifty men to begin, their wages paid entirely in scrip. In the second half of 1932 Wörgl spent 100,000 Schillings rebuilding and asphalting four miles of streets and extending the sewerage system, the entire cost being covered out of overdue tax receipts. The savings bank benefitted too and deposits exceeded withdrawals for the first time for many months. In January 1933, the town began to build a ski jump and a reservoir. Both were completed without incurring any debt.

As one might expect, other towns started planning to copy the scheme and although the Austrian Government had not been hostile to the Wörgl experiment, the Central Bank felt it had to prevent similar systems from becoming widespread for fear it would lose control over the amount of currency in circulation nationally and hence be unable to prevent inflation. It instituted legal proceedings against Wörgl council and on 1st September 1933, the scheme was stopped, exactly 13 months after it had begun. "Wörgl had a community currency but it was not a personally-issued currency like LETS; its issue was institutional" Michael Linton comments. "It was just a substitute for the national currency issued by a local government rather than by the Austrian central bank. All of the many such local money schemes in the past have merely been small scale versions of national currencies and they don't work any better at the local level than they have at the national. Because they are kept scarce like national currency they create a climate of competition which still leads to local unemployment and local rich and local poor. More seriously, they are also inherently less stable than national currencies and prone to irrecoverable collapse, so the authorities were in some ways quite right to suppress the Wörgl one although almost certainly they did so for the wrong reasons."

The story now moves to the United States where several hundred communities ranging from villages to the state of Iowa and cities such as St. Paul, Minnesota, either issued their own scrip or seriously considered doing so. The pioneer was Hawarden a town of 3,000 people in Iowa, in October 1932 but unfortunately the promoter, Charles Zylstra, departed from the Wörgl/Wära model and did not set up a redemption fund to guarantee the issue. Instead, he proposed that every person who received a scrip note with the face value of a dollar should stick a special 3-cent stamp on it before passing it on and that after it had been used for 36 transactions and had collected $1.08-worth of stamps it could be redeemed for a US dollar.

Unfortunately, there was no way apart from public honesty to ensure that a stamp was applied after every transaction. Moreover, although the scrip itself was dated in an effort to prevent hoarding, the absence of dates on which stamps had to be applied meant that there was no incentive to pass the money along as quickly as possible. In fact, as the scrip was used to pay part of the wages of men engaged on unemployment-relief projects, the whole scheme amounted to little more than an optional tax to meet the cost of the work which was paid by those using the local money.

Despite its problems, Zylstra's system was adopted in several towns with mixed results. Eventually, however, it was replaced by closer approximations to the Wörgl scheme as that became better known, notably through the efforts of a professor of economics at Yale University, Irving Fisher, who even published a manual on how to set up and run a stamp scrip system in 1933[25]. Fisher described at length a type of scrip proposed for the city of Reading, Berks County, Pennsylvania, in which the note had fifty-two squares on the back, each printed with the date of consecutive Wednesdays in the year after its issue. Special two-cent stamps were stuck in these squares by whoever held the note on Tuesday night before they could be used the following day and by the end of the year, a sum of $1.04 would have built up to allow the note to be redeemed at par and leaving 4 cents to cover expenses. According to newspaper reports of the time, scrip of this type was widely adopted.

By 1933, more than 300 communities had introduced some form of barter system, scrip or local currency to try to overcome the nationwide currency shortage. Tenino in Washington State even used wooden money - it printed 25c, 50c and $1 tokens on spruce wood after the local bank collapsed, freezing everyone's assets. $6,500-worth of timber coins were put into circulation but when the day came for them to be redeemed in US currency, only $30-worth was presented - coin collectors and tourists had taken the rest, leaving the town council with enough cash to buy the bank and open it again.

"Scrip permitted if soundly backed" was the headline in The New York Times on 10th January, 1933, but it was too good to last. Three months later, on March 4th 1933, President Roosevelt forbade any further issues, although existing schemes were allowed time to wind themselves up. It was not that the government had any objections to scrip being issued to create jobs but it had been advised by Professor Russell Sprague of Harvard that the US monetary system was being democratised out of its hands.

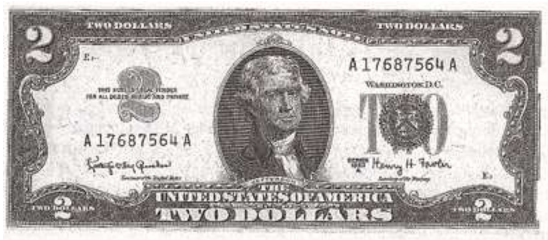
Within the past few years, however, scrip has re-appeared in at least 21 communities in the United States as a result of the work of Paul Glover in Ithaca, which is described in the panel. However, the most recent version of stamped scrip I know of was issued in the small historic French town of Lignieres-en-Berry in August 1956 in an effort to generate more business and thus counteract the town's decline: its population had halved to 1,700 in the previous fifty years and of those who remained, 300 were over seventy [26]. Initially, the scrip, which was issued by a group of the town's traders, was exactly like that in Wörgl. It was backed by national currency into which it could be converted at 98% of its face value and had to be revalidated each month with a stamp costing 1%.

The early results were encouraging but the project started to enjoy real success when, in April the following year, wage earners were told that if they converted their money into scrip, they would be given 5% extra. Naturally, it was necessary to stop people who bought scrip this way immediately converting it back for a quick profit and the new notes were stamped with their date of issue so that they could only be changed into francs at the 98% rate after four months: if converted earlier, a bigger discount applied. This deal proved very attractive to the people of the district because, if they converted their cash into scrip and spent it immediately, they were effectively getting a 5% discount from the traders. However, if they simply held on to the scrip for four months and then stamped it to bring it up to date, they could convert it back to cash and earn a 3% rate of interest for the period. As a result, the new money was widely used in the town and tended to circulate for at least four months before being cash in.

Many communities moved to copy the system, alarming the Bank of France so much that in July 1957 it sent a team of police specialists to investigate what it saw as a virus about to contaminate the whole country. Laws carrying penalties of up to two years' imprisonment and a 20 million franc fine were passed to frighten off people planning similar systems but Lignieres scrip continued to circulate at least until the early 1960s and another small town, Marans, introduced a variant of it in March 1959 without anyone being prosecuted.

Scrip - but not of the stamped variety - is currently being used in some Argentine provinces as a result of a decision by Roberto Romero, the governor of Salta in 1984 to give public employees and creditors the choice of being paid in promissory notes immediately or in national currency some days later. As prices were rising rapidly at the time, many employees chose not to wait and accepted the new notes because the banks would exchange them at par for national currency if necessary anyway. However, in order to encourage people not to exchange them, Romero organised a lottery offering prizes to the holders of the notes bearing the winning numbers. The provincial government naturally accepted the new money for the payment of taxes and shops and businesses rapidly began to accept it too. Three other provinces took up the idea and have since issued their own money on similar lines.

PANEL: WHY DO GOVERNMENTS LET BANKS CREATE MONEY?



Did President Kennedy's decision that the US government should issue its own notes like this one lead to his assasination? Some conspiracy theorists think so.

One of the most perplexing problems future economic historians will face will be that of explaining why almost every 19th and 20th Century government allowed private banks to create almost all the money their citizens used even to the extent of requiring their state treasuries to pay interest for the loan of money private banks had created merely by making entries in their account books when the governments could have created an equivalent amount of currency the same way themselves and financed, interest-free, whatever they wished to do. At the very least, the practice constituted - and constitutes - a massive subsidy to the banking sector and to the wealthiest groups in society.

According to the late John Hotson, who retired as Professor of Economics at the University of Waterloo in Canada in 1992, roughly 95% of a typical industrial nation's currency is created by privately-owned banking organisations granting loans to their customers [27]. One of the few occasions on which governments put interest-free money into circulation is when their central banks decide they need new premises and simply issue the currency to pay for their construction.

At almost all other times, governments feel constrained to borrow all the funds they need and therefore pay interest on money the private banks have created. Quite why governments feel unable to create money for, say, public capital projects apart from central bank buildings and have run up massive National Debts in their determination not to do so has never been adequately explained, although bigots with hypotheses abound. For example, neo-Fascists claim it is due to a Jewish conspiracy and sell books about it through badly-printed mail-order catalogues alongside works which claim that the Holocaust never happened. An equally silly, but perhaps less dangerous theory comes from the Order of St. Michael in Canada, where Social Credit (the idea that a society should create its own purchasing power) was a powerful political force in the 1930s. The Order's members, who call themselves 'slaves of Mary' and 'Catholic Patriots' working 'to deliver nations from Communism and the banking dictatorship', hold the Freemasons responsible but, like the Fascists, fail to produce a shred of evidence.

Three extremely serious consequences flow from allowing banks to create almost all a country's money by issuing loans for which they charge interest. The most pernicious is that the need to pay this interest creates the capitalist system's constant need for economic growth and thus makes it unsustainable in a finite world. We will be discussing this more fully in the next chapter when we consider how interest should be managed in a local economy.

The second consequence of their delegating the power to create money is that governments have too little control over the amount put into circulation. For example, if the banks issue so many loans that the economy overheats and the inflation rate rises, one of the few ways governments can respond is to raise interest rates by selling government stocks to mop up the excess funds - in other words, by borrowing some of the excess money themselves. This can seriously distort the distribution of national income because if the interest rate rises above the percentage rate at which the gross domestic product is growing in money terms, the wealth of lenders begins to increase faster than that of borrowers and the total debt owed to financial institutions by everyone in the country, including companies and the state itself, grows in relation to GDP. This is exactly what happened in Britain in the 1980s: because inflation was suppressed by raising interest rates and real growth rates were low, the proportion of national income going to moneylenders significantly increased as we noted in Chapter One.

The third consequence of not issuing money is that governments cannot do what Paul Glover has done with his Ithaca Hours and the Westport LET system with its Reeks - pay to get things done without incurring a debt on which interest must be paid indefinitely. Only two places in the world have issued their currencies on a non-debt, non-interest basis - Jersey and Guernsey - and the results have been remarkable.

The Guernsey system dates back to the period just after the Napoleonic Wars which had seriously damaged the island's economy because they prevented smuggling, the people's most important income source. As a result, according to Olive and Jan Grubiak's 1960 pamphlet, The Guernsey Experiment [28], the island was in a distressed state: "The deep roads ... in wet weather became muddy rivers between steep banks. The town was ill-paved and unattractive, and there was not a vehicle for hire of any kind on the island. There was no trade, nor hope of employment for the poor. Worst of all, the sea was encroaching the land, and washing away large tracts of it, thanks to the sorry state of the dykes."

There seemed little possibility that the island's government would be able to erect the necessary sea defences, which were expected to cost £10,000, since the £2,390 interest bill on Guernsey's public debt of £19,137 (equivalent to approximately thirty times that amount today) absorbed all but £600 of its annual income and, in view of the people's poverty, there was no scope for further taxation. However, a committee was set up to see how money could be raised for a smaller project - the erection of a covered market. This reported back in 1816 with the proposal that the cost of the market and various other public works be met by issuing 6,000 States Notes, each with a face value of £1, to circulate alongside the £50,000-worth of banknotes then in use on the island. The idea was accepted although notes worth only £4,000-worth were initially issued, and since it was proposed to redeem them with British money in stages, the arrangement amounted to little more than an ingenious interest-free way of borrowing the funds to finance the island's capital works programme. However, other tasks including the sea defences and the construction of schools were taken on, and further note issues made, so that by 1829, States Notes worth £48,000 were in circulation.

In 1826 a complaint was made to the Privy Council in London that the States (as the Guernsey Parliament is called) had no right to issue currency without royal consent. The States submitted a lengthy report to the Privy Council on the ways in which the local currency had been spent which demonstrated that the income from the projects it had financed was more than enough to redeem the notes issued. Satisfied, London took no action. The complaint was probably instigated by the promoters of the Old Bank which set up in Guernsey the following year. A second private bank, the Commercial, opened in 1830 and the two 'flooded the island with paper money.' The States held discussions with both banks and, as a result, withdrew £15,000-worth of its own notes from circulation and agreed to keep the total issue of States notes below £40,000. This agreement remained in force until 1914.

During the World War I, the local banks were prohibited from increasing their note issue while the States was under no such restriction and issued a further £100,000-worth of its currency to meet the demand. Since then, the two local banks have become part of British high-street banking chains and have ceased to issue currency - instead, British notes circulate in Guernsey alongside the island's own.

Today, if someone uses a bank on the island to cash a cheque or draws money from an automatic teller with a plastic card, they will receive Guernsey currency which the banks obtained from the States' Treasury in exchange for a sterling cheque for the same amount. The treasury then returns the sterling cheque to the bank which issued it to be lodged in a deposit account in the States' name. Each Guernsey note in circulation is therefore backed one-to-one by its British equivalent.

"We've got about £14m.-worth of notes and coin in circulation at the moment" Michael Browne, the States' Supervisor told me in early 1994. "It fluctuates a little with the seasons. It constitutes a £14m. interest-free loan for us - in fact, it's a loan we collect interest on. The payments we get on it from the banks make a small but useful contribution to the island's budget"[29.]

Although Browne says it would be possible for the States to spend the sterling it receives from the banks in payment for its currency, it no longer does so. "Our policy on this island is, if we can't afford a new school building or something like that, we don't borrow, but wait until we can pay for it before we put it up. As a result, we have almost no public debt, apart from some money owed by the state trading boards which run the telephone and electricity systems. Even that is covered by sinking funds" he explains.

According to Browne, Guernsey's absence of debt is as a result of its conservative financial policies and the main reason why the island's income tax rate is only 20%. He regards the States' refusal to spend the funds obtained as a result of its currency issue simply as prudent book-keeping and suggests that the success of the 'Guernsey experiment' is largely a myth.

With the presumption of an outsider, I suggest he is mistaken. There are two ways in which Guernsey could handle the sterling it receives from the sale of its currency. One would be to spend a high proportion of the £14m. it has already collected on capital works immediately, leaving just enough on deposit in the banks to ensure that a Guernsey pound can always be exchanged for a British one. But if this course was followed, the amount of capital spending the currency issue made possible in future would fluctuate wildly from year to year as it could never be more than a prudent proportion of whatever amount of additional island currency had entered circulation during the previous twelve months. In some years, there might be no increase. In others, the amount of local currency in circulation might even decline because of a fall in economic activity, requiring the island not only to halt its capital programme but, in the event that the Guernsey pound's fractional sterling backing proved inadequate to cover the withdrawals, to use some of its tax revenue to pay interest on British pounds borrowed to ensure the exchange rate was maintained. In other words, basing the island's capital spending on how much more local currency went into circulation in a particular year would prove highly destabilising: the States would spend more when the island was booming and have to cancel its capital programme and slash its current spending when it went into decline.

The second way open to the island is to do exactly what it does - to limit itself to spending the interest on the capital sum that issuing its own currency creates. This avoids the destabilisation entailed by the first course and ensures that a relatively steady amount of capital spending can be undertaken annually. After all, if the States are able get 7% interest on their £14m. sterling deposit, this will earn them enough to cover a third of its £3m. capital budget year after year.

Jersey issues its currency in the same way. Could counties and towns elsewhere follow suit and enjoy similar benefits? There seems no reason why not because the Guernsey arrangement suits both the island and the banks. Lending is any bank's most important source of income and whenever a bank hands currency notes over to a customer, both its assets and its liabilities are reduced, cutting its capacity to make revenue-earning loans. When it hands out Guernsey currency, however, the sterling it used to buy them is deposited in another of its accounts, so there is no fall in the bank's assets and hence in its capacity to make loans. Guernsey, as we have seen, benefits too. Someone appears to be getting something for nothing - how do the benefits arise? The answer is that they come from the creation of £14m. which would otherwise have not existed by essentially the same process that banks use to create money when they grant a loan facility on which the customer writes cheques. So, given that both sides benefit, the only obstacle likely to arise would be if central banks objected to county councils convincing their residents that it was in their interests to insist on getting county currency whenever they withdrew cash from their banks.

Alternatively, county or town councils could create their own money by following the Wörgl model almost exactly: working in close collaboration with local businesses, as local authorities did whenever scrip was issued in 1930s America, they could arrange loans from their local credit unions and leave them on deposit so that anyone who wished to exchange their local money for national currency could do so on payment of a small fee. Wörgl's monthly revalidation stamping system could also be adopted to ensure that the local money was always spent in preference to that from outside.

The benefits to any council adopting either approach are clear: no longer would it have to depend almost entirely on central government or on bank borrowings to finance low-income housing, industrial starter-units, a library building or a better swimming pool. Local builders would get more work - indeed, if the council was wise, it would only embark on a big spending programme when there was spare capacity in the local construction trade. Even the national government would be better off as a result of increased tax revenues and lower social welfare claims. But would these gains be sufficient to enable it to ignore dire warnings about inflation which would undoubtedly come from its central bank or treasury department upset by the loss of some of its powers?.

John Hotson was associated with the Committee on Monetary and Economic Reform, COMER, which describes itself as 'composed of economists and non economists, both academic and non-academic, whose goal is a sustainable financial system in a sustainable world economic/ecologic/social system.' COMER's website, at www.comer.org, contains many interesting articles. E-mails can be sent to comerpub@comer.org.The street address for COMER is: COMER Publications, 245 Carlaw Ave. Suite 107, Toronto, Ont. CANADA M4M 2S6. Membership costs US$45 per year for non-Canadians.

COMER is one of the few groups in the English-speaking world doing serious work on monetary reform. It has links with Economic Reform Australia which is working on similar lines. Economic Reform Australia's street address is P.O. Box 505, Modbury, SA 5042, and Frances Milne, co-editor of the newsletter, can be reached at +61 29 810 7812. An unsurpassed source of historic material on microfiche on free money and free banking is the Libertarian Microfiche Publishing Company, 35, Oxley Street or P.O. Box 52, Berrima, NSW 2577. Another good source is The Monetary Freedom Network (website in German), c/o Siegfried H. Schwenke, Wissmannstrasse 15, D-12049 Berlin. Tel. 030 6213861.

Local currency systems can avoid the conflict between money's function as a medium of exchange and as a store of value if they develop different currencies to do different jobs. A LETS unit can be a satisfactory medium of exchange. It can also fulfil money's third function - that of being a unit of account - because it allows people to keep track of how they stand with each other. But by no stretch of the imagination can it be considered to be a store of value and anyone who builds up a large surplus of units in their account so as to be able to obtain goods and services when they retire in twenty years' time is a fool because no-one can guarantee that the system will still be operating then. This is both a strength and a weakness. This deficiency is a serious weakness with LETS because people earning more local units than they can immediately spend stop accepting them so readily and thus damage the system for everyone else. However, rather than trying to enable LETS units to duplicate all the functions of national currency, it is probably better to create a local store of value in some other way.

Robert Swann, a co-founder of the Schumacher Society in the United States and one of North America's leading thinkers on economic alternatives, has taken part in two attempts to devise currencies which are also stores of value. One of these was the 'Exeter Experiment' - the successful launch in Exeter, New Hampshire in 1972 of the Constant, a currency devised by Dr. Ralph Borsodi, a leader of the decentralist movement in the United States and the author of a book, Flight from the City, which encouraged a back-to-the-land movement during the Great Depression in the 1930s. Despite his background, however, Borsodi, as his book about the experiment Inflation and the Coming Keynesian Catastrophe30 reveals, was motivated more by what he saw as the dishonesty, theft and embezzlement that inflation involved than any thoughts of achieving greater community self reliance: indeed, prompted by President Nixon's decision a few months earlier to break the dollar's link with gold, he did not intend to launch a local currency at all but was running a small-scale experiment to demonstrate the viability of a new type of national or international currency.

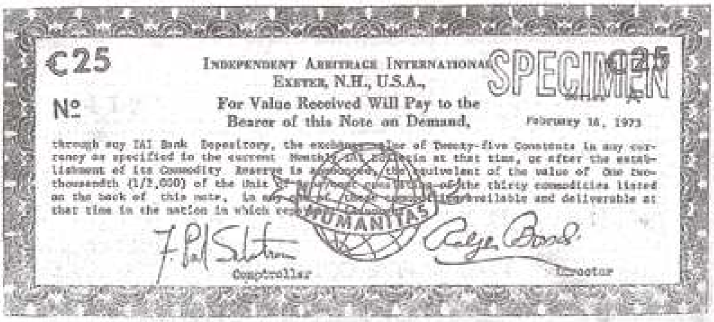
The first Constants were sold on June 21st 1972 at a conference organised by the School of Living, an organisation Borsodi had founded and for which Swann then worked. Borsodi deposited the proceeds, and those from subsequent sales, with two banks in Exeter so that they had funds to cash any Constants presented to them. Alternatively, if the holder wished, the banks would lodge the Constants in a special account in the holder's name. The value of a Constant was based on that of specific amounts of thirty basic commodities, including gold, silver, iron, aluminium, lead, copper, nickel, tin, zinc, coal, oil, wheat, barley, rice, rye, oats, soya, maize, wool, cotton, cocoa, coffee, copra, hides, jute, rubber, cement, sulphur and sugar, and holders could sell them at any time for the total of whatever the constituents were then worth: Borsodi's organisation, Independent Arbitrage International, recalculated the Constant's underlying value monthly and let the banks know. "People who bought Constants from Borsodi's organisation at, say, $2.18 a 10-Constant note were surprised later when the bank paid them $2.19 for it" a local newspaperman, Mel Most, wrote after the experiment had been running for seven months.

As Borsodi realised, the Constant was potentially far more than a way of protecting one's purchasing power against commodity-price inflation because, if firms had begun to quote prices in Constants rather than dollars, and banks had offered Constant loans, there would have been a real possibility that the new units would have proved so much more reliable than the steadily depreciating dollar that the national currency would have ceased to be used. Before this could happen, however, the experiment was terminated a year after it had begun because Borsodi thought he had proved his point, namely, that a commodity-based currency was entirely workable. He did not feel that at his age - he was then 86 - he could take on the responsibility of setting up and running an international currency-issuing bank.

For our purposes, the significance of Borsodi's experiment is that a small town - Exeter had a population of almost 9,000 people at the time - readily adopted an alternative currency despite the fact that it was not backed by the local government as had been the case in Wörgl. "Thousands of dollars[-worth] of bank money orders and personal checks for Constants have circulated like money and been used for buying and selling, and have been cashed [by banks]" Most wrote. "Even the staid, wealthy Philips Exeter Academy paid in Constants for thousands of dollars[-worth] of printing and supplies." Swann adds 31: "The Town of Exeter accepted them as payment for parking fines. Very few people ever redeemed them for dollars at the bank." Even when the experiment ended not all

Constants came back: many were kept by their holders as souvenirs. No legal problems over issuing the notes emerged.

With the exception of silver and gold, Borsodi never intended that his proposed Bank for the Issue of a Stable Currency (BISC), for which the Exeter Experiment was a dummy run, should buy actual physical stocks of the thirty commodities backing the Constant because of the costs and problems involved in storing them, particularly perishables like wheat and rice. Instead, he proposed that BISC buy commodity futures with part of the money it received for Constants and that it should sell the futures and buy replacements as they approached maturity. The rest of the purchase money was to have been invested in securities or issued as loans and the income used to cover BISC's administrative costs. The bank was likely to prove highly profitable, Borsodi wrote, because only fractional commodity backing for the Constant would be necessary.



Today, however, Swann thinks that energy is a better way of backing for a currency than a collection of commodities because the long-run price of every product is related to the amount of human, animal, renewable and fossil energy that went into making it. One of his proposals would, in effect, turn electricity producers into currency-issuing banks. "Almost every community has renewable resources for producing energy" he writes in one of the chapters he contributed to *Building Sustainable Communities*[32], a book on the methods that communities can use to be come more self-reliant published in 1989. "All such energy resources can be converted into electricity or measured in kilowatt hours." He envisages community companies established to develop these resources financing themselves by selling energy notes. "For example, if local utility rates are presently 10 cents a kilowatt hour, then one dollar would buy 10 kilowatt hours for future delivery. Owners of the notes, sold in lots of 10, 50, and 100 units (comparable to current values of one, five and ten dollars) would hold them for future redemption no matter what their future dollar rate.... The community organization or corporation would issue the notes only in amounts equal to their projected output of electricity, thus avoiding inflation of the currency."

Since the notes would always be worth the current price of the amount of electricity they represented, they would be accepted instead of national currency by people living in the generating plant's service area in payment for goods and services, particularly if, as with the Constant or the Wörgl schilling, a local bank stood ready to redeem the notes for cash. Although Swann has not tried such a system out, he was associated with the successful launch of the Deli-Dollar and the Berkshire Farm Preserve Note which are discussed in the next chapter and which share the sale-of-product-in-advance feature with his energy note idea. As a result, there is no reason to believe that an energy-backed currency would fail.

Wära, stamp scrip, Hours, Time Dollars, Wir, Reeks, Constants - a wide range of currency systems is available for a local economies to use. Which would suit a social field with a population of a few tens of thousands of people? The answer is 'Most of them' because each excels in specific functions and only a range of systems can fulfil them all. The first step is undoubtedly to get several LET systems established, each limiting its membership to about 250 people so that the necessary social controls operate well.

Then, for those who neither need nor want to join a LET system because they have adequate national currency incomes but would like to use their leisure to help others, a Time Dollar-type system should be considered. Business people will want their own WIR-type system in which their unit and the national currency are equal in value so they do not have to distinguish between the two in their books. These business systems will have to control the amount of credit they allow much more stringently than would a LETS because their membership is likely to be larger and less amenable to social pressures.

There is no reason why a district should not also have its own equivalent of a national currency which would be accepted by everyone for all transactions. This could be a store-of-value commodity-based unit, Borsodi-style, operated by a local group[33]; or an energy note, backed by one or more power producers; or a national-currency-backed banknote issued by the local council on the lines of that in Guernsey. Indeed, there is no reason why a single area should not have all three in operation simultaneously. There would be some inconvenience, certainly, but computerised cash-registers would minimise it and shops in border areas at present readily cope with keeping three or four currencies in their tills. In any case, if a combination of several local currencies and a national or international one works significantly better than a national or international one alone, should the fact that traders would need to do a little extra book-keeping be allowed to prevent it starting up?

In the past, of course, several different types of money could generally be found in use in the same place at the same time. Some ancient civilizations used one form of money - generally silver - for long-distance trade and another, perhaps barley, as their unit of exchange closer to home. This meant that, unlike the mainstream system today, a shortage of external currency did not prevent internal trading going on [34]. In the Middle Ages, coins from several countries would often be used to make a single payment, the value of each type based on the weight of precious metal it contained. Later still, notes issued by innumerable private British banks circulated alongside sovereigns from the Royal Mint and it was only in 1844 that the Bank of England, a private company until 1946, was given the exclusive right to issue paper money in Britain - previously its monopoly had extended just sixty-five miles from London. This limited monopoly allowed about twenty Scottish banks to issue their own money in 1800, each backing its notes with its own gold reserves. This system was very stable - losses to note-holders and depositors amounted to only £32,000 between 1727 and 1844, the entire period they were allowed to operate, and Scottish notes were preferred to English ones as far south as Yorkshire [35]. In Ireland in the 18th Century, the currency consisted of a mixture of foreign coins, bankers' bills and notes, and locally-issued silver and copper tokens, the result of a British ban on the export of English gold and silver coins to pay for imports purchased there.

But, in common with other aspects of life, this diversity has been lost. The money supply has been standardised and nationalised and although banks in Northern Ireland and Scotland still issue paper currency carrying their name, they do so as agents of the Bank of England. But it is only in the issue of notes and coin that the state has a monetary monopoly: two other more important forms of money - cheques and credit cards - still enable the banks to create spending power privately and government controls over the extent to which they do so are indirect and ineffective. Uncrossed cheques are essentially a near-currency since they can be passed from hand to hand in settlement of successive transactions. During an eleven-month-long bank strike in Ireland in the early 1970s, they allowed economic life to proceed more or less normally. Quite soon, forms of privately-created electronic money like the Mondex system tested in Swindon in 1995 may displace the state's cash and notes altogether. "Users would carry a plastic card that would let them download funds from their bank account using a mobile phone or cashpoint. The card could then be used to make purchases [by swiping it through a reader] up to the value of the sum downloaded" Giles Keating, the head of global economics at the CS First Boston bank in London explained in an article [36] in *The Financial Times.*

2003 update on Mondex by Caroline Whyte

After a three-year trial in Swindon organised by HSBC and NatWest, Mastercard took charge of Mondex in 1996 and has had complete ownership since 2001. Concerns about the security of internet and cell-phone based transactions seem to have hampered its spread since then but Mondex cards are available in 80 countries where they are accepted by a variety of businesses. They seem not to have had much influence on the amount of notes and coins in use.

Keating went on to argue that holders would be able to use their cards at home and abroad because the readers would automatically convert the currency held in the card to the one in which the purchase was priced. This would give people complete freedom to choose the currency they downloaded into their cards. "The effect would be dramatic. Smaller currencies could almost disappear - especially if there is any hint of systematic depreciation. Even larger currencies would face a substantial decline in usage if they were weak. ... Long-term credibility as a strong currency would become even more important than it is at present."

But even though state control over the supply of money and the issue of currency is at present only partial and, if Keating is right, may well disappear altogether, we can expect considerable resistance from governments to community monetary systems once they threaten the status quo: the only reason that LET systems have escaped problems so far is that they are having so little effect on what is conventionally regarded as the 'real' economy that they do not warrant the effort to close them down. But when communities get serious, the opposition will become serious too. The big banks, who are developing the electronic money systems, will not allow their power to create money to be eroded without a struggle and will find ready allies in politicians hoping to retire to a seat on their boards. Power is never given away by the powerful, it has to be taken by the weak. Consequently, if we are ever to achieve independence in our lives and communities, the right to issue our own currencies is one of the issues over which we must expect to have to fight.

Further Information (last updated August 2002):

Every group considering starting a LET system should acquire a copy of The LETS Info Pack prepared by Letslink UK , (12, Southcote Road, London, N195BJ, e-mail lets@letslinkuk.org , tel +44 (0)20-7607-7852) and available from them for £12 postpaid,or £15 to overseas addresses. This provides a step-by-step guide to setting up a system , supplies a model constitution, advises on tax and social welfare, and includes samples of existing systems' cheques and directories so that new ones do not have to re-invent the wheel. You can become a member of Letslink for £10 a year, which entitles you to receive their newsletter, email broadcast, and preferential rates for conferences and trading courses.

In Continental Europe, the Letslink function is performed by the organisation Aktie Strohalm, Oudegracht 42, 3511 AR Utrecht, the Netherlands, tel. 31-30-314314, fax 31-30-343986, email info@strohalm.nl, which launched the thriving and innovative Dutch movement and has contacts with systems in Denmark, Germany, Switzerland, Belgium and France. Aktie Strohalm is the world's leading organisation looking at the ways in which the whole range of local currency and local banking systems can be developed and linked with each other to make more self-reliant local communities possible.

An increasing amount of information about LETS is becoming available on the Internet. econ-lets is the main site for the discussion of 'the economic, social and telematics issues surrounding the development of LETS'. The website at www.lets-linkup.com has links to LET systems all over the world and is regularly updated.

Notes

1 *Inishkillane; Change and Decline in the West of Ireland* (Penguin 1974)

2 For a painstaking account of this system *see Meitheal: A Study of Co-operative Labour in Rural Ireland* by Anne O'Dowd, Comhairle Bhealoideas Eireann, University College, Dublin, 1981

3 The quotations from Michael Linton come from talks he gave in Dublin in 1993. They have since been checked by him.

4 LETS has become a generic term covering a wide range of local currency systems and Linton therefore distinguishes between "LETSystems" which have five essential characteristics, and LET schemes, which he describes as the "committee-managed, small-is-beautiful, no-business-please (ie, no commercial motivation), politically-correct variety". The five characteristics of LETSystems are: (I) They operate on a not-for-profit basis and the costs of administration are paid by each account-holder in the local unit. (ii) All accounts start at zero and the account-holder has sole control over the movement of money in and out of his or her account. There is never any obligation to trade. (iii) Any account-holder may know the balance and the volume of trading of any other account-holder in the system, (iv) The local currency unit is equivalent to the national currency, and (v) No interest is charged or paid on account balances. There is a wide range of systems with these characteristics, as Linton encourages them to experiment. When this chapter refers to LET systems or LET schemes, it is talking about all types, including those which meet the LETSystem specification.

5 February, 1994.

6 Letter to author, 21/2/1994

7 Letter from Frank Brennan to John Bolger, 16/2/94.

8 E-mail dated 27/11/95.

9 Particulars of each barter transaction must be submitted by whoever is running the system with both parties and the revenue service unless the system has less than 100 transactions a year. See *Journal of Taxation* , 1983, and *also Standard Federal Tax Report*. 3/9/83. The law is PL 97-248, paragraph 5093.

10 Confusion often arises when the turnover of different LET systems is compared because some systems quote turnover figures derived by adding together all the changes in members' accounts, both positive and negative, thus doubling the value of trading apparently done. This is eliminated here.

11 "The Local Exchange Trading System: Political Economy and Social Audit" (MSc. thesis, School of Environmental Sciences, University of East Anglia, 1994). Copies are available from Ms. Seyfang, PO Box 18, Diss, Norfolk, IP22 3NS for £6, postpaid. *Studies of the Totnes and Calderdale LET systems* by Colin Williams of the Centre for Urban Development and Environmental Management, Leeds Metropolitan University, Brunswick Building, Leeds LS2 8BU, indicate that LETS members have below- average incomes and that the unemployed among them generally make more trades but each trade is of lower value than that of those in work.and their total earnings are less. The average annual value of trading per member was £ 40 in Calderdale and £153 in Totnes, Williams found.

12 February, 1994

13 The only book by Gesell, who died in 1930, readily obtainable in English *is The Natural Economic Order*, probably in the edition published by Peter Owen, London, in 1958 although there was a Berlin edition in 1929 and an American one in 1933.

14 "Sechs-Stunden-Tag im Mittelalter", which appeared in the *book Vorwärts zur felten kaufkraft des geldes und zur zinsfreien wirtschaft*, 1931.

15 Carlo M. Cipolla in *The Monetary Policy of 14th Century Florence* (University of California Press, Berkeley, 1982).

16 Quoted by Irving Fisher in *Stamp Scrip*(Adelphi, New York, 1933), p20. *The New Republic* article was written by Hans Cohrssen who became Fisher's assistant and contributed a valuable account of the stamp

scrip movement in the US to Dieter Suhr's book on the necessity of developing a type of neutral money which encourages neither hoarding nor spending, *The Capitalistic Cost-Benefit Structure of Money*. (Springer: Berlin & New York 1989)

17 Letter to author, 11/8/94.

18 Erick Hansch, Initial Results of WIR Research in Switzerland (International Independence Institute: Ashby, Mass. 1971).

19 *50 ans Cercle economique* WIR, WIR Basle,1984.

20 Ibid.

21 *DCN-Passport to Interest Free Living*, (n.d).

22 Local Trading Bond Scheme: *Proposal for a Feasibility Study* (Schumacher Projects: July 1993).

23 See *For Polygamy in Currency* (Abraham Rotstein, University of Toronto, and Colin A.M. Duncan, York University, Ontario n.d.), which states that the growth of barter networks in the US was partly due to anti-trust laws which may forbid direct barter between firms but not if mediated through a third party. ‘Several of the largest transnational corporations in the world are members of their own barter networks’ they say. Another motive was tax avoidance and there were some spectacular tax and other frauds.in the past although the networks are now trying to improve their image.

24 Fritz Schwarz, *Das Experiment von Wörgl*, (Genossenschaft Verlag: Berne 1952). Cited by Margrit Kennedy in *Interest and Inflation-Free Money*, (third edition) (Permakultur Publikationen, Steyerberg: 3rd edition 1990).

25 Stamp Scrip, as mentioned above. Fisher also wrote *Mastering the Crisis*, (George Allen & Unwin, London: 1934), which covers a lot of the same ground.

26 Details of the Lignieres and Marans systems are given *in Perspectives d'une Revolution Economique et Monetaire* by Marino-Bertil Issautier, a special issue of Cahiers de la Pensée et de l’Action, Paris, 1961.

27 "Financing Sustainable Development", a paper given by Hotson at the first "T.O.E.S." (The Other Economic Summit) in Australia, 26-28th November, 1993.

28 (Omni Publications: Hawthorne, California, 1960).

29 Telephone conversation.

30 Available from the E.F. Schumacher Society, Box 76, RD3, Great Barrington, MA 01230, 1989.

31 In Swann's introduction to *Inflation and the Coming Keynesian Catastrophe*.(E.F. Schumacher Society: Great Barrington, Mass. 1989)

32 C. George Benello, Robert Swann and Shann Turnbull, Ward Morehouse (ed.), *Building Stable Communities, Tools and Concepts for Self-Reliant Economic Change*, (Bootstrap Press: New York, 1989).

33 Professor Lewis D. Solomon of the National Law Center, George Washington University, Washington D.C., devotes almost a quarter of his book *Rethinking our Centralized Monetary System: The Case for a System of Local Currencies* (Praeger: New York 1996) to local currencies pegged to commodities and the practical steps which would have to be taken to issue one. He also provides an authoratitive survey of the legal aspects of issuing local currencies in the US.

34 Karl Polyani: 'The Economy as an Instituted Process' in Polyani, Pearson and Arensburg, eds., *Trade and Markets in the Early Empires*, (Gateway: Chicago 1957).

35 Lawrence White, *Free Banking in Britain: Theory, Experience and Debate 1800-1845*, (Cambridge University Press: London, 1984). An excellent bibliographic essay on free banking by Kurt Schuler appeared in the *Humane Studies Review*, Vol. 6, No. 1, Fall 1988. See also F.A. Hayek, *Denationalisation of Money*, Institute of Economic Affairs, London, 1976

36 2/11/95