A Pictorial History of Community Currency Systems

by Stephen DeMeulenaere, 2000

For the past 6000 years, communities have issued, managed and circulated their own currencies. In addition to ensuring that the needs of people in the community could be met, the use of these currencies protected the community from the economic instability going on around them. As economic systems developed into the forms that we see today, the community-based currencies themselves have also changed to suit new realities, never losing the essence of currency as something that is designed, issued and managed by the community members themselves.

After a few hundred years of domination by national currencies, their power is beginning to diminish. The rise of supra-national currencies like the Euro, the widespread use of the US Dollar outside of its borders, and a series of major monetary crises in Asia and the Americas is weakening the monopoly of national currencies within their borders. As a response, communities are introducing community currencies to protect themselves from these crises. Within the last 20 years, community currency systems have been established in 35 countries worldwide, with plans underway in many more.

Community currency systems are community organized and managed systems of exchanging locally produced goods and services using an interest-free currency whose circulation is limited to a particular geographic area defined by the community. Except in very few cases, these systems are based on the principle of "mutual credit", in which each person has the right to take from, and a responsibility to give to, the system. When a community member withdraws credit from their account, they effectively issue that currency and back it with their promise to repay their credit by earning it from others. The administration of the system therefore does not issue the currency, rather simply providing the third-party service of transaction recording, account-keeping and gathering information on their members offers and requests.

These systems arise out of a critique of the dominant debt-based economy, and are designed in contrast to it. The dominant economy is one in which money is owned by Banks, issued as debt to Governments, in scarce supply in order to maintain its value, and which can go anywhere. As this currency can circulate inside and outside national borders, a contradiction arises: the currency must be scarce to maintain its value on foreign markets, but there must be enough in the country to facilitate exchange. In times of economic crisis, this contradiction can reach disastrous proportions. Thus, community currencies can fill an important role, holding the domestic economy together while the national currency is being battered on international money markets.

From Ancient History...

In many countries, traditional exchange and cooperation systems still operate and remain strong. Often, no money changes hands but rather goods are bartered. In other cases, shells or other indicators of value are used. Some have a very ancient history.

The oldest currencies were printed on clay tablets. Some represented receipts of deposit or letters of credit which could be traded, and others actually represented the good or service being traded.

Ancient Babylonian currency tablet, circa 4000 BCE.

Product Tokens from Susa, Iran (3500 BCE). Clockwise from left, 1 jar of oil, 1 garment, 1 measure of metal, one unknown item, one measure of honey, one garment.

It is from Babylon, regarded by the Book of Revelation in the Bible as that evil city at the center of what is wrong with the world, where the payment of interest on debt originated. However, at first interest was simply to fund the community's economic and social development programs, and to cover losses. Only later did it become a tool of oppression and slavery.

Every so often, the king would declare all debts null, and property confiscated for failure to pay debts was returned. The term for this is one we still use today, "the cleaning of slates". At that time, clay tablets were either dissolved in water or smashed.

In the Middle Ages, the great Cathedrals of Europe were financed by 'Breakteats', a form of local currency that circulated among the community. They were used to pay the workers who contributed many years to these projects. Thus, the currency facilitated long-term projects.

In 1816, England's Channel Islands of Guernsey and Jersey issued their own currency. During the war against Napoleon, the British government was basically bankrupt, with 80% of all tax revenue was going towards debt payments to the banks who had issued the currency. The people and the materials were there, but there was no money (as a medium of exchange) to move their resources. They issued their own currency and, eighteen months later, they repaid their bank debts, repaired the civil infrastructure, built a church and a monument. Today, there is $36 million dollars of local currency in circulation for a population of 60,000.

After World War One, in the 1920's, Germany's economy was still in a mess. The central government had made a serious mistake by printing millions of Marks to pay to the victorious countries for war reparations, and the immediate result was rapid inflation. In response, many cities across Germany began issuing their own currency, in a much more responsible way than the national government.

Jersey Island Currency, England, 1999.

...Through the Depression Years

Less than 10 years later, it was America's turn to make a big mistake with the stock market, resulting in the Crash of 1929 and resulting monetary crises, known as the "Great Depression". Again, hundreds of communities in America and Canada issued their own currencies to assist the country in recovering and helping people to meet their needs in the meantime. As a result of the analysis of the effect of these systems in promoting economic recovery at the local level, a number of prominent economists including Irving Fisher began to call for the use of parallel currency systems at the local level.

Lubeck City Currency, Germany, 1921.

Alberta Provincial Currency, Canada, 1936.

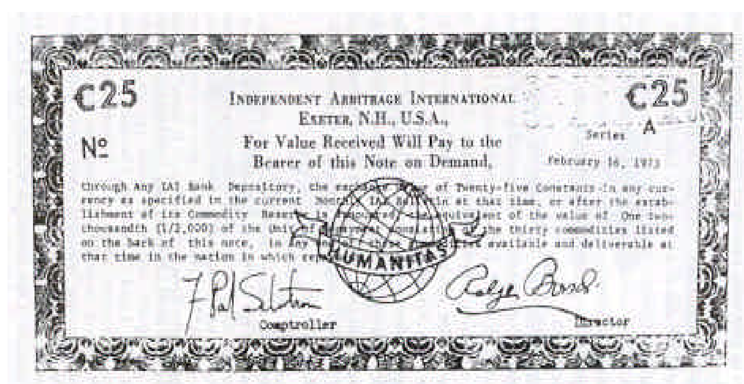
As the Depression spread to Europe throughout the 1930's, community currency systems were started in Germany, Austria, Scandinavia and neighbouring countries. In some cases, these systems applied "negative interest" to their currency, which is a charge attached to circulation to encourage circulation and prevent hoarding of the currency. Only those holding the money had to pay the tax on it.

Herr Hebecker of Schwanenkirchen, Bavaria (population 500) owned a small bankrupt coal mine. Instead of paying his workers in Reichsmarks, he decided to pay them in coal. He issued a local scrip called Wara on the reverse of which were small squares where stamps could be adhered. This scrip was only valid if the stamp for the current month had been applied. It was therefore costly to hoard as it needed stamps to be affixed to revalidate it at the end of each month. The stamps cost two per cent of each note's face value to allow a further month's use. The "negative-interest" charge was justified as a "storage cost". Food and services were paid for with Wara. As this was the only currency available to the miners, the local traders had no option but to accept them, who in turn convinced their suppliers to accept them. It became so successful that the village became free from debt and by 1931, this free economy movement had spread throughout Germany involving more that 2,000 businesses. 20,000 Wara were issued and 2.5 million people handled them between 1930 and 1931.

Front of the Wara Currency Note, Germany, 1931.

Back of the Wara Note with "negative interest" stamps.

In the late 1930's, Spain's fledgling Republic was fighting a war against the Fascist Dicator, General Franco. In the Republican stronghold of Catalonia Province, a complex system of distribution was established, using accounting records and tickets to direct production to the needs of the people and to the anti-fascist war effort.



The Constant, America, 1973.

From the end of the war to the 1960's, it seemed like economic growth would never end. In the late 1960s, Ralph Borsodi, a friend of development economist E.F. Schumacher, experimented with a stable currency based on a basket of commodities. In the 1970's, intentional communities and grassroots living came into vogue. Barter became a popular pastime.

From the Information Age...

Then in the 1980s, we entered the information age. In 1981, the IBM XT computer was released to the public. Michael Linton from Vancouver Island, Canada, who formerly worked in the computer field in the 1970s, built an accounting database. In 1982, the Local Exchange Trading System was introduced, and laid the foundation for a Mutual Credit community currency system. Whereas local currency systems developed as a natural response to economic crises in the dominant economy, the LETS developed as an intentional response to a critique of the conventional economy, and was designed to be in contrast to it.

In designing the LETS, Linton sought to separate the contradictory role of conventional money as a store of value and a medium of exchange into separate parts. He saw money as "an information system for recording human effort", and saw no difference between money mediating an exchange, and inches mediating the length of a piece of wood. Using the analogy of a home builder, what if the home builder were to go to the Building Supply Store, only to be told that he could not have any wood because there were not enough inches to measure them with? If the materials and human resources are in place, why do we accept that there is not enough money to move them? Money, then is simply information and need not also represent a store of value at the same time. Thus, as all information could be kept on the computer, it did not have to be printed on paper in the form of a note.

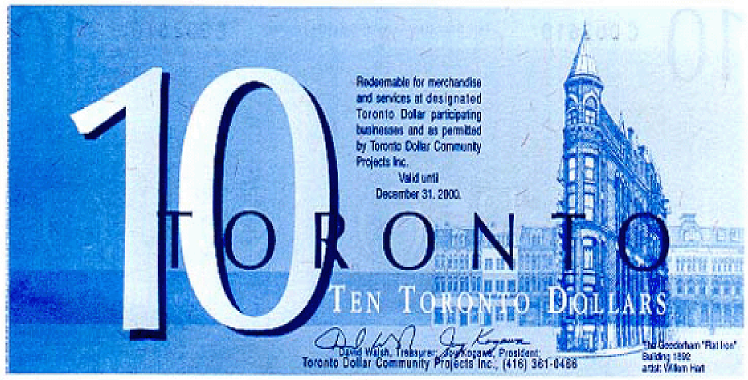
If money is simply information, then it need never be scarce. That's not to say that the supply is unlimited, it certain is limited by various realities. However, it is always there when needed. The responsibility for maintaining the value of the money was given to the person who issued it. Thus, LETS currency is identified as "personal money".

Rather than seeing the LETS as an alternative, Linton saw the LETS as a parallel economy, like a lever for switching the train track of the conventional economy towards a better destination. Understanding that market mechanisms are efficient, and that efficiency is often a good thing, he sought to introduce cooperativism into market-oriented economic activity.

Valley Trade Dollar, New Hampshire, America, 1998.

As the LETS system was simply recording the transactions and keeping the accounts, and was not actually issuing the currency or controlling it in any way, Linton designed the system to be interest-free. In that way, the member was responsible for their use of the system, and the system simply facilitated that use. The fact that the LETS currency is always sufficient in supply, that it remains within the locality or community into which it is issued, that it is issued by the members themselves and that no-interest is charged on it, it complements perfectly what the conventional economy is lacking.

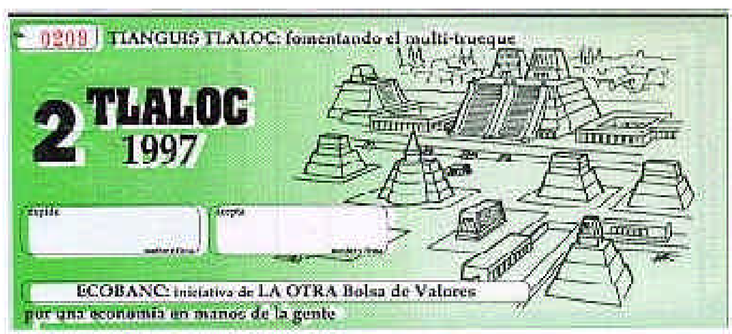
In Toronto, a unique approach to non-profit organization fundraising is paying off big dividends. The Toronto Dollar is a currency that circulate, for its test period, within the St. Lawrence Market. People can increase their contribution to non-profits by exchanging their Canadian Dollars for Toronto Dollars. Businesses in the market accept Toronto Dollars and can cash them in for 90% of their value, effectively giving 10% of their sales to non-profit organizations. Plus, the Toronto Dollar has an expiry date, and thus any other Toronto Dollars that were not spent mean a full contribution to the non-profit organizations.



The Toronto Dollar, Canada, 1999.

...To the Global South

In 1994, the Tianguis Tlaloc, the first modern-style community currency system was started in the Mezquital Valley in Mexico's Oaxaca state. Although it came at the same time as the Zapatista Rebellion in neighbouring Chiapas and had to be continued, the program was restarted in Mexico City in 1995 and has been spreading throughout the country since. The state government of Tlaxcala has become involved to support the program as a poverty alleviation measure.



Tianguis Tlaloc, Mexico, 1998.

In 1995, a group of Argentinian environmentalists held a backyard garage sale. However, this was no ordinary flea market. Each person brought what they had to sell, and received tickets representing money. They used these tickets to mediate barter exchange, and was a great success. The Global

RGT Credito, Argentina, 1999.

Exchange Network (RGT) blossomed, and has now spread nationwide to become the largest national community currency network in the world, with 500 systems, 500,000 members and several million US dollars in circulation each year. The national government has recently signed an agreement with the Global Exchange Network to facilitate a cooperative relationship.

Salta Province Debt Cancelling Bond, Argentina, 1987.

A number of Argentina's Provinces also had experience with issuing their own currency. When the national government was unable to transfer funds to the provinces, they had no money to pay their employees with. So, rather than waiting, they issued their own "Debt-Cancelling Bonds", government bonds issued in the form of currency units equivalent to the Argentine Peso. Economic research showed that when these currencies circulated, inflation in these provinces actually declined, compared to other areas in Argentina.

The Global Exchange Network model is now spreading throughout South and Central America, with systems in Uruguay, Brazil, Chile, Peru, and Colombia, with projects underway in El Salvador and elsewhere, opening the way to becoming the first inter-national interest-free exchange system as a response to the World Trade Organization and the deleterious effects of debt-based global exchange.

In 1997, a member of the French LETS returned to his homeland of Senegal to start a community currency system there. Today, the Doole (meaning "strength of unity") is operating in many of Dakar's districts, and in other communities in the country. A Cooperative Business where the system's members can sell their goods, a School and Training Center where new skills can be learned in a guild manner, community projects and a weekly public market are the primary activities of the system. Doole currency, called "Bons", are denominated in hours of time with a corresponding West African Franc and US Dollar value.

Bon Community Currency, Dakar, Senegal, 1998.

In 1998, a community in northeastern Thailand began looking at ways to assist their community through the Asian Economic Crisis. The way they settled upon was to establish a community currency system. The system was launched in March of 2000, and enjoys widespread support. Despite this, the government became fearful and has acted to scare the community members away from using the system. With the support of the Village Head and the Abbott of the local Buddhist Temple, the project continues.

Kud Chum "Bia", Thailand, 2000.

In 1999, Japan had yet to establish its economy on a course of recovery from the Asian Economic Crisis. People were still hoarding their money out of fear of further depression, while the economy desperately needed people to spend. To encourage this, the Japanese Government issued a temporary currency backed by 750 million US dollars of government debt. Although the program was flawed from the start and received very little coverage outside of Japan, it was significant in asking each community in the entire country to design its own currency. There are now several community currency systems in the country, and with the support of senior government bureaucrats and academics, the systems are spreading.

Temporary Community Currency Note, Japan, 1999.

Indonesia, the country hardest hit by the Asian Crisis and political turmoil following the ousting of General Suharto, has yet to recover from the crisis. Prices skyrocketed, but incomes did not rise to match, leaving millions in even deeper poverty, and an official minimum wage in 2001 raised to a little more than 1 US dollar per day. Communities have begun to look at alternatives to debt slavery, by mobilizing the assets they have to serve themselves better.

Toward a Better Future

Recent instability in the global debt-based monetary system, recent attempts to speed up the pace of globalization against the wishes of the great majority of people, and profound changes to information and communication technology have provided very fertile ground for the spread of community currencies.

In general, we can say that Community Currencies:

1. Are issued safely and soundly. In the vast majority of Community Currency Systems, currency is issued through member accounts, just like that at any bank or credit union. The amount withdrawn or deposited is recorded on a ledger sheet. As the totality of account balances is always equal (credits - debits = 0) or (credits + cash in hand - debits = 0), the accounting is very simple and sound. The administration does not issue currency, rather it is the member who issues currency to themselves. The system simply records that action. Only a small minority of systems, more appropriately termed "local currency" systems, centrally issue currency to their members. These systems are almost exclusively limited to North America.

2. Only circulate within a bounded area. So as to serve the community, the currency circulates only within a geographic area defined by the account-holding members. It is very unlikely the currency would be accepted outside of this area, as it can only be spent within the area in which it is accepted. Unlike national currency that drains out of localities, community currency always flows back, increasing the multiplier effect by keeping the national currency local longer.

3. Do not challenge national currency. Community currencies are most-often denominated in the same value as the national currency, and thus are also called parallel or complementary currencies, or social money. This serves two purposes: to maintain price parity (the price remains the same after the introduction of the system) and to make it easy for people to use the currency. As community currency can only be used for local purchases, the national currency is used for all non-local purchases, thus there is no direct competition between them. People will generally prefer the national currency, but lacking that, the community currency will work just fine. Locally produced goods may be paid for using a combination of national and community currency, or only just in community currency. It is up to the seller and buyer to decide. Certainly, use of the community currency frees up national currency for the purchase of non-locally produced goods, meaning that perhaps more expensive goods can more easily be affordable, or that debts may be repaid more easily.

4. Operate legally in more than 35 countries worldwide. There are community currency systems operating in all NAFTA, G7 and EEC countries, as well as in Japan, Thailand, Australia, New Zealand, Senegal, Mexico, El Salvador, Peru, Ecuador, Colombia, Venezuela, Uruguay, Chile, Argentina and Brazil. In some cases, these systems are actively being supported by state governments. The governments of Mexico, Argentina, Australia, England actively support community currency systems, and many others have given their unofficial support. In all cases where the government supports community currencies, none of these systems has ever been regarded as a threat to national financial stability.

In fact, many politicians agree on the many benefits community currency systems offer to the community and to the national economy. American economist Lewis Solomon in his book "Rethinking Our Centralized Money System" argues that such a network of community currency systems should be established nationwide in America. Clearly, if the wealthiest countries in the world allow such systems to establish, then surely so should the governments of the peripheral economies.

5. Protect the national economy using a free-market mechanism. All over the world, barriers to free trade are falling. Few countries, perhaps only Japan, can afford to maintain high trade barriers in order to protect their markets from ravaging and pillaging by foreign economies. However, what opposition can there be to a mechanism that gives free-market advantage to community-based trade networks? There is no opposition to interest-free Islamic banking, or to community microloan programs as these do not prevent exchange with foreign traders. It is the same with community currency. However, the use of community currencies provides the advantage of a 'blanket of insulation' when the cold and stormy winds of economic crisis blow through the country. A self-reliant community can weather any crisis, and thus a community currency system increases a community's chance of surviving national economic instability such as that experienced by Mexico in 1995, Japan, Korea, Thailand and Indonesia in 1997, Brazil in 1998 and the inevitable crises in the debt-based monetary that are yet to come.