BEYOND YES AND NO
A MULTI-CURRENCY ALTERNATIVE TO EMU

David Boyle
Foreword

The debate about abolishing the pound, adopting the euro and joining European Monetary Union has been frustrating. There seems to be few changes of mind, as the rival camps lob insults at each other from either side of an unbreachable divide.

It is also largely a ‘debate’ that goes on in entirely political terms: the Prime Minister has hinted one thing, the Chancellor another. The question whether the euro might be good for some and less good for others, rarely arises. And it assumes that somehow Britain is indivisible, that what is good for the big corporations is necessarily good for everyone.

This impoverished debate, we can only assume, is a small version of the larger one we can expect if and when the Prime Minister calls a referendum on entry into the euro zone. There is little or no prospect that the specific affects on the communities and neighbourhoods of the UK will come under discussion, or what can be done about it. Yet even the Governor of the Bank of England, Eddie George, pointed out that sterling, with its single interest rate, was too big a currency to work well for all UK regions.

This report puts forward an alternative way forward, based on a range of different currencies in the UK at every level of economic life – from the regions to neighbourhoods. Not instead of the pound or the euro, but to underpin those aspects of life we may lose if we adopt a currency that is too big. It is a contribution to a debate that has so far failed to take place.

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The New Economics Foundation works to construct a new economy centred on people and the environment. NEF has a wide programme of work on local economies, and on economic globalisation ranging from corporate accountability to climate change.

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Introduction: The currency conundrum

“If labour and capital are insufficiently mobile within a country then flexibility of the external price of the national currency cannot be expected to perform the stabilisation function attributed to it, and one can expect varying rates of unemployment or inflation in different regions.”

Robert Mundell on optimal currency zones

“The notion of multiple target currencies opens up a new way of thinking in economics… Multiple parallel systems, with permeable membranes between them, give very stable systems – as in the human body. This is a whole field which needs, and will get, attention.”

Edward de Bono on parallel currencies

This is a report about the euro, but with a difference. It aims to apply the principles of the new economics – the tradition of Schumacher and Daly – to the vexed question of whether Britain should take part in European Monetary Union.

It also does so from a point of view that is overwhelmingly internationalist, and therefore – despite reservations about centralisation, secrecy and bureaucratic inertia – supportive of international co-operation at a European level. The report argues that the debate should not be side-tracked over whether Britain should adopt the euro and abolish the pound, but whether big, single currencies are appropriate for Britain or the regions and communities within it. The key issue, we argue, is the way that big currencies pervert the accuracy of economic information fed back from local economies to the centre, and the consequent devaluing of local life.

The report applies the ideas of optimal currency zones to the EMU project. The implications of this are that ending fluctuations between currency values will have serious effects. Without some other action, EMU is liable to go the same way as the similarly inflexible gold standard of the 1920s, which – like the euro – Winston Churchill described in 1925 as currencies that “vary together, like ships in harbour whose gangways are joined and who rise and fall together with the tide.”

This report proposes an alternative strategy that could avoid the fate that befell the return to the gold standard two generations ago. It concludes that:

• The euro will only work for everyone in the UK as part of a multi-level system of complementary currencies.

• Without that system, it is likely to widen divisions between North and South, between rich and poor, between multinational and local business, and between industry and financial services.
The problem

"Then as still, what is called sound economics is very often what mirrors the needs of the respectably affluent."

John Kenneth Galbraith, Money, 1975

The euro is the child of a European ideal. It was designed with a political purpose – to integrate the people of Europe, and give a concrete reality to the ideas that lay behind the creation of the European Union. The ideal of European co-operation is worthy and vital if we are going to make sure that Europe’s squabbles never plunge the world into war again, as they did twice before in the last century, but there are significant dangers in a single European currency too.

The euro also has other functions. It is designed to tackle a range of economic issues, and these are not insignificant either. They include the increasing power of the world financial markets, and the foreign exchange market in particular. When almost $2 trillion floods through the world economic system every day, and less than three per cent of that has anything to do with trade, the smaller currencies in the world are seriously at risk from targeting by hedge funds and other speculators. With the number of currency crises accelerating over the past decade, there clearly needs to be some mechanism whereby the currencies in Europe can secure themselves. The euro was able to provide countries like France and Spain with protection against the worldwide currency crises that began with the Russian rouble crisis in 1997.

The other objectives of the euro are more double-edged. Helping business with the costs of changing money may or may not be a priority, according to taste – most large businesses have to hedge these risks anyway. But any measures that create a level playing field for direct competition across national borders will also tend to back big multinational brands against small, local business. They are likely to undermine the diversity and ownership of local business, and to mean more goods having to be transported by road. These are important issues when it comes to the urgent task of rebuilding healthy and diverse local economies, and the euro is likely to undermine it, just as it is likely to undermine the economic self-determination of communities and regions.

Criticisms of the euro on the grounds of national sovereignty are ignoring the central truth of global economics – that in most cases our national sovereignty has already gone. But criticism of EMU because it undermines local sovereignty, makes people more vulnerable to the changes in the global economy, have to be taken seriously. Adopting the euro will mean that the local institutions people hold dear – local post, local shops, local pubs or local cinemas – will probably be swept away even faster.

It is also possible to criticise EMU on the grounds of democratic legitimacy, along with so many EU institutions, where the meetings are in secret and the participants un-elected. Addressing this issue would certainly improve the chances of the euro getting through a British referendum, but it isn’t the job of this report to examine EU institutions. The key question is whether the euro can suit all the communities, cities and regions of Britain.

Optimal currency zones

The question of whether currencies suit the whole zones they cover was first raised by the economist Robert Mundell in his 1961 article that first coined the phrase. His argument was that there are clear drawbacks to large currencies which could make unemployment worse, building up fierce political resentments for business. This is a critical objection to the euro because it can undermine the ability of governments to help local economies recover their competitive edge. There is also a danger that a combination of a large currency zone and the instant comparability of e-commerce might create a ruinously over-efficient market.

The idea that large currencies are the solution to all economic weaknesses has been undermined by the disaster that has followed Argentina’s decade-long adoption of the US dollar – the interest rates for which are set entirely for the benefit of the USA. But before that, it seemed that big currencies were emerging everywhere. Tokyo had been urging the creation of a global currency system that links together the yen, euro and the dollar, to avoid the kind of crash which nearly undermined the global economy, and they won support from European leaders. The former German finance minister Oskar Lafontaine and his French counterpart Dominique Strauss-Kahn both expressed support for a global currency system, primarily as a way of damping down currency speculation. Joseph Yam, the chief executive of the Hong Kong Monetary Authority, urged the creation of an Asian Monetary Union. That is not to mention the way that so many Latin American countries linked their currencies to the value of the dollar.
There is also a sense in which the world already has a single global currency. Transaction times are now so fast that economic uncertainty can be translated almost instantly across the globe. "National currencies have no function whatsoever in the electronic economy," said Robin Bloor, CEO of the analyst group Bloor Research. "There is room only for a single world currency." But despite the simplicity of big currencies, there are clear disadvantages. Large currencies reduce the ability of national governments to take economic action, at local as well as national levels. There is also evidence that they will increase the economic divisions within and between nations and that they can cause continuing unemployment. Forty years after he came up with the phrase 'optimal currency zones', Mundell’s questions are still as important as ever.

The key problem for large currencies is unemployment. This has been a continuing problem across western Europe. EMU defenders say that the greater prosperity the euro brings will trickle down to counteract this – though we know how rarely the success of the few trickles down to the many. “Trickle down doesn’t work,” said Bill Clinton in 1992, and serious economists haven’t argued with that conclusion. It is far more likely that the introduction of an international currency and the abolition of national currencies, and with them the ability to vary interest rates from region to region, is likely to make the employment situation worse in some places.

Clearly, large currencies are unlikely to be the cause of joblessness. Western Europe built up this jobs backlog under many currencies, while the USA reduced its unemployment to an unprecedented low with a single currency. The issue is whether large currencies can make the situation worse so that it becomes more difficult to do anything about it. The problem is that, the larger the geographical area covered by a currency, the more likely it is for regions within it to be at different stages of the same economic cycle. The UK, for example, tends to mirror US, Canadian and Australian cycles, rather than the cycles of its EU partners. It may be that the euro would tend to bring those cycles into line, but there is no guarantee of that, and in the meantime the currency is likely to worsen the problems of crisis regions. The mismatch would mean political pressure for large financial transfers between regions, which are extremely unlikely to happen on a large enough scale.

Even within the UK, the effects of having one currency – and one interest rate – probably increases divisions: certainly the Governor of the Bank of England said he believed this to be the case. "Any national policy that makes enough national spending available to enable Liverpool to generate healthy levels of economic activity there, is bound to create inflationary conditions in other parts of the country," wrote the radical economist and former civil servant James Robertson. That situation is likely to be even more pronounced under the euro.

Economic feedback
So what exactly is going on? The problem with big currencies is that they undermine the kind of information small currencies can provide to cities and regions. This was the argument that the radical economist Jane Jacobs put forward in 1986:

"Imagine a group of people who are all properly equipped with diaphragms and lungs, but share only one single brainstem breathing centre. In this goofy arrangement, through breathing they would receive consolidated feedback on the carbon dioxide level of the whole group, without discriminating among the individuals producing it... But suppose some of these people were sleeping, while others were playing tennis... Worse yet, suppose some were swimming and diving, and for some reason, such as the breaking of the surf, had no control over the timing of these submersions... In such an arrangement, feedback control would be working perfectly on its own terms, but the results would be devastating."

Hong Kong and Singapore are cities with their own currencies, said Jacobs; Detroit is not.

In practice, once again, this loss of feedback undermines the ability of nations and regions to respond to international events. If a recession in Latin American meant a decline in Spanish exports, for example, then the Spanish peseta used to weaken and interest rates fall. That automatically reduced the impact on unemployment by stimulating other exports. But now that the peseta has been replaced by the euro, Spain can no longer use this method of easing their unemployment. Nor will the Spanish government be allowed to cut taxes or raise spending to offset a fall in demand.
The same problem with EMU emerged very quickly, even before the launch of the new currency, once the currencies had been linked. In 1998, Ireland was a booming economy with signs of economic overheating, growing by an estimated eight per cent over the year – compared to 3.2 per cent in France and 2.8 in Germany. House prices in Ireland had been exploding, rising by 56 per cent during 1997 and 1998. The money and credit supply were growing at 20 per cent over the same year. The same year, Germany was at almost the precise opposite in the economic cycle, with low interest rates and low inflation and unemployment at 11.6 per cent. Yet with its economy already overheating to create the convergence conditions for the euro, Ireland had to cut its REPO rate by half - from six to three per cent - over the final weeks of 1998. The rate cut was "not in Ireland's best interests," said Maurice O’Connell, governor of the central Bank of Ireland at the time.  

Germany is now two very different economies united by a single currency: it is a serious argument against the euro.

The United States
The USA is the counter-example used by the most enthusiastic proponents of the EMU. US unemployment remains low despite a single currency covering 250 million people and a single central bank. But there are important differences between the USA and Europe:

- Americans are far more mobile than Europeans, and do not have language barriers to moving from regions of high unemployment to places where there are jobs.  
- American wages are much more flexible. They tend to fall in regions where there is lower demand.
- When income declines in US regions, taxes paid to the federal government go down sharply, which means a net transfer to the regions that need it.
- Although the euro-zone has been expanding, it looks as though the structural unemployment rates of European countries – the rate to which unemployment can fall before it triggers wage inflation – is much higher than in the USA.
- The US federal government spends and taxes twice as much as all the state governments put together, and is able to make the necessary transfers between regions if necessary. In Europe, it's the other way around.

EMU advocates argue that the different economic cycles in Europe will slowly come into line with each other. But studies by the US Federal Reserve imply otherwise. Their research has shown that different European regions are likely to have very different reactions to the same 'common monetary policy shock', which implies that most European national economies will continue to react at different speeds. They even found that sub-national economies in the USA behave at different speeds to the same impetus. It seems likely that the single US currency is one reason why the USA has such wide divisions between rich and poor.

The plight of small communities
As well as facing increased competition from multinational brands, peripheral communities are going to have to face the problem that they can’t any more vary the value of their local goods. This problem is especially acute now that local economies are increasingly dependent on distant corporations or utilities, rather than on local business. An increasing proportion of local spending in these regions
leaves the area immediately rather than being re-
circulated.

Traditional jobs in small business may be replaced by
more mundane work for large retailers, often at lower
wages. Banks may be increasingly reluctant to lend to
new start-ups. Local communities can, in other words, run
out of cash.21 The impact of large out-of-town stores in the
UK has been shown to remove between 13 and 50 per
cent of the main food shops in local market towns.22 All
these problems are likely to be exacerbated by larger
currencies, despite any other economic benefits they
bring, because those benefits are likely to be unevenly
spread.

For the foreseeable future, it is going to be small
companies that produce the most employment, and will
therefore increasingly be the focus of political attention. In
the 20 years to 1997, the sales of the world's largest 500
corporations grew by 700 per cent, with no growth in the
number of people they employed.23 In fact, the world's top
200 corporations need only 16.8m employees - or 0.3 per
cent of the world's population - to dominate 28 per cent of
the world's economy.24

Because of this, the EU countries where employment is
most dependent on small firms – Italy, Portugal and Spain
– are likely to be most hit by larger currencies. In the UK,
regions which have the highest ratio of small businesses
or self-employment against multinationals are likely to
suffer the most.

The problem of measurement
Currencies are also units of measurement. They provide
information about value. And the effect of using a larger
ruler to measure a local economy is that the information is
increasingly flawed. Big currencies, in other words, don't
measure very well. They are geared towards the needs of
multinationals and of currency traders in New York and
London, providing detailed feedback information about
risk.25 But they are blunt instruments when it comes to
measuring what's important in smaller communities.

Cities have at least two levels of economy. In London, for
example, there is the economy that is measured by the
conventional indices of economic achievement. This is the
economy of a great financial centre, which presides over
the great cascade of money through the City of London
from all over the world. It is this economy that makes itself
felt in Britain's GDP and which makes London a wealthy
city by economic measures. It is dominated by the
financial services industry, but its earnings only trickle
down to a small extent to the other businesses and
services that feed it – from accountants to sandwich
shops, from advertising agencies to bars.

But there is another economy too, which feeds off the
pickings from the rich table above it, but is not necessarily
part of it. This is the economy of the rest of us – those
businesses and aspects of life so distant from the financial
services industry as to be almost untouched by it. This
economy is in London because it happens to be in London,
because nearly eight million people live in the city. It is
wealthy in the world's terms, but it includes much that isn't
wealthy at all.

Those two economies interact, of course, but the
difference in power between them can lead to enormous
problems. The financial services industry brings
executives from all over the world, whose employers will
pay their housing expenses no matter what – and this
forces the price of London homes beyond anywhere else
in the country. It prices many of the services in the
capital city beyond the other economy altogether. This is
why London struggles to employ nurses or teachers or
bus conductors because they can't afford to live there, so
the basic services suffer. The big brand names also drive
out the local ones just as the big budgets drive out the little
ones. Because both economies use the same counting
system – the same internationally-recognised pounds – the
fact that there are two economies, one of them struggling,
is not immediately apparent.

Worse, London's rich economy threatens to drive out the
poor economy completely. We can see this happen in
offshore financial centres where financial services have
priced everything else into oblivion. In Jersey, for example,
it is the cuckoo in the nest. The island's offshore status
has made it rich in terms of money, and yet there is no
longer a Jersey agriculture sector to speak of, and the
tourist sector is well past its prime – because nobody but
financial manipulators or banks can afford to live and work
there.

“I became increasingly concerned at Jersey's reliance on
its tax haven status,” said Jersey's former economic
advisor John Christensen, who grew up on the island,
and described how demand from financial services made
it impossible to diversify the Jersey economy. “There is
simply no available skilled labour, and the cost structures
are prohibitive for most other industries. The banking
cuckoo has taken over the nest.”26
London is the same, and London is a microcosm of Britain as a whole. If the Bank of England puts up interest rates to batten down the financial service industry in the south east, then it ruins the manufacturing industry in the north. If it lowers them to suit the exporters, it threatens a housing boom in the south east. What is valuable locally – small shops with local knowledge or green spaces – gets discounted because the big currencies do not recognise them as valuable. Waste products get discounted in just the same way, which is why up to five million perfectly workable computers are thrown out every year and go into landfill, because the currency sees them as valueless.

The third economy
But London’s economy also includes another ‘economy’ that drives all the rest. This third economy isn’t strictly an economy at all: it makes up the crucial human transactions that build families and neighbourhoods, look after old people, and without which nothing we can do can be successful. Economists are starting to call this ‘social capital’ and market forces do not apply here – people don’t after all bid for food at the dinner table. But without it, the police can’t catch criminals, doctors can’t heal, children can’t be educated and the other economies can’t work. This social economy doesn’t appear in the GDP: politicians assume it is inexhaustible and so ignore it. It is the trust that underpins all the rest, but the international economy tends to drive it out by converting social transactions done by people for each other into cash transactions done by paid professionals.

This damage happens under the pound, but it risks being deepened considerably under the euro, because the centre of balance for the euro – and the decisions that govern it – are much more distant. This, and all the other problems of big currencies, imply not just that Britain should reject EMU, but that we should also tackle the problems caused by the pound.

The Treasury is, of course, aware of the potential drawbacks of EMU for Britain. Their answer is a series of ‘economic tests’ announced by Gordon Brown which can answer whether or not the UK economy can be integrated safely. The trouble with the Chancellor's five economic tests for British membership of EMU is that they ignore the issues set out here: that the economic effects may be very different in different regions or sectors. They approach complex questions with meaningless single figures. Tests 1 and 5 are particularly simplistic.

- **Test 1 (Are business cycles and economic structures compatible so that we and others could live comfortably with euro interest rates on a sustainable basis?):** The problem with this test is that it assumes that the UK’s economic structures and business cycles are somehow monolithic, and that they barely differ from city region to city region. It follows that some parts of the economy may be compatible with the euro zone, while others may not be. Nor is it clear that the different UK economic sectors and regions are developing at the same speed: since they may depend on different sectors in the world economy. The implications of this is that business cycles may appear compatible when you consider figures from the UK economy as a whole, but still be disastrously incompatible in some city regions or even some economic sectors. The Chancellor therefore needs a new economic test: Are all the cities and regions of the UK compatible enough to live with euro interest rates on a permanent basis?

- **Test 5 (Will joining EMU promote higher growth, stability and a lasting increase in jobs?):** Test 5 also assumes that the UK economy is an indivisible whole, when it is nothing of the kind. What would promote higher growth and stability in one region and sector, might do nothing of the kind in another. An honest test would recognise this and be clear which regions and sectors will advance and which would suffer. We therefore need another test that asks: Does the balance of benefits of joining EMU outweigh the disbenefits in terms of sustainable jobs in enough of the cities of the UK, and do we have sufficient policies in place to tackle the disbenefits in the regions disadvantaged by joining?

Any tests worthy of the attention would not result in simple yes and no answers. The effects of EMU are going to be different on different sectors and regions of the economy, and it would be more honest of the government to come clean on this and – to the best of their ability – outline what the balance of benefits and disbenefits are going to be in each city and region. They would then have to come up with a plan that, if they are intending to join EMU, would also tackle the problems that result in the disadvantaged cities and regions.

The alternative is that a decision to join EMU on the basis of the five economic tests might actually divide cities from rural areas, divide the south from the north, and divide manufacturing from financial services.
Multi-currency alternative

"Hours is money with a boundary around it, so it stays in our community. It doesn't come to town, shake a few hands and then wander out across the globe. It reinforces trading locally."

Paul Glover on the thinking behind his Ithaca hours local currency

The implications of optimal currency zones is that, whether or not Britain adopts the euro, it probably needs more currencies rather than less. This clearly doesn't mean dividing the country up into new discrete currency zones, but it does mean using a range of new kinds of money in parallel to underpin different aspects of the economy. If the euro, for example, provides benefits that are patchy geographically, then it may be that the existence of other forms of money might fill in some of the gaps – either geographically or socially.

"Today we take it for granted that the elimination of multitudinous currencies in favour of fewer national and imperial currencies represents economic progress and promotes the stability of economic life," wrote Jane Jacobs in 1986. “But this conventional belief is still worth questioning... National or imperial currencies give faulty or destructive feedback to city economies and this in turn leads to profound structural flaws in those economies, some of which cannot be overcome, however hard we try.”

There is clearly a danger that introducing a new level of regional currencies in parallel to the euro might increase the vulnerability of the European economy to speculators – and there must be safeguards to make sure this doesn’t happen – but they might also help regional economies adjust better to international monetary regimes that suit them badly. The idea that parallel currencies might provide a safety net for smaller businesses and disadvantaged communities underneath the cold winds of big currency competition has been backed by one of the designers of the euro, former Belgian central banker Bernard Lietaer, now at the University of California at Berkeley.

Parallel currencies already feature in EU policy, as part of their regional policy and in the URBAN Initiative for cities. This report proposes them as a way out of the current EMU dilemma.

Will parallel currencies cause inflation?

Not if they are circulating in regions or cities where there is not enough cash to connect local needs with local resources. Mutual credit projects like Lets and Wir are systems where debits and credits always match each other precisely, and these will not be inflationary. There is always a danger that printed currencies or other currencies that have to be issued into economies will exceed the work done in a local economy – and there must be mechanisms to withdraw medium of exchange before confidence is undermined.

There is no reason why local currencies should cause inflation, any more than air miles cause inflation – as long as there is surplus airline capacity to satisfy demand. Or that business barter currencies like trade pounds cause inflation as long as there is capacity and demand. The point is that many communities and some regions are not well served by the existing one-size-fits-all monetary arrangements.

Precedents for multiple currencies

Companies already have a great deal of experience dealing with more than one currency at once. E-commerce is already pricing products simultaneously in a range of currencies in Europe: Dell prices its products in euros and national currencies, so the multi-currency precedent is there. But the idea of parallel currencies goes back a long way too: tobacco was used as money in the American colonial states for about 150 years, and it was shortage of coinage – and the insistence by the colonials on printing their own currencies – which was one of the main triggers for the American War of Independence. This is an important precedent in itself, and a major reason why a large government or empire needs to think twice about suppressing new ways of providing local means of exchange.

The idea of using other kinds of currencies in a semiformal system of mutual aid was known in rural Ireland as meithal. Mutual credit systems, which substitute a commonly agreed token as money, were also developed in colonial Massachusetts. The tradition of local
The idea of multiple currencies, possibly competing ones, would have been nightmarish until a decade ago, with complicated wallets, expensive exchanges and a juggling of different notes and cards. But the advent of ubiquitous information technology now makes this relatively simple, and currencies can now be downloaded onto cards by phone, can be spent by phone, can be collected, exchanged and managed by software or on the internet (see www.openmoney.org). The Boots Advantage card currently has unused space for more than 20 different electronic currencies that do not yet exist.38
Parallel currencies tend to fall into the following categories:

- **Barter currencies**
  Trade pounds and trade dollars have been used by large companies for decades as a way of exchanging hard-to-sell stock – originally rapidly-dating hotel rooms, advertising space or plane seats, but increasingly also odd-coloured stock, unpopular coloured toothpaste and the range of back and surplus stock. Barter for SMEs arrived in the UK with the emergence of the Australian company Bartercard in London, which has successfully spread the idea of business barter to increasingly wide areas in the economy. The barter and countertrade industry now accounts for anything up to 20 per cent of world trade, and has provided itself with sophisticated clearing house systems for goods or services outside local exchanges: barter also seems to be successfully counter-cyclical – it grows when the economy shrinks.

- **Loyalty currencies**
  Frequent flyer miles have been developing as currencies for the past decade, although their use by individuals in this way is strictly controlled – the alliances of companies where air miles, for example, can be given or exchanged, is broadening considerably. Airlines have used frequent flyer miles in this way for some years. Throughout the 1990s, NorthWest Airlines paid for their entire public relations budget worldwide in this way.

At first sight, loyalty points don’t seem to behave like money – though the estimated three trillion unspent frequent flyer miles were considered a dangerous liability on US airlines by accountants in 1999. But they are a narrow information system that allows companies to fund customer loyalty out of their own surplus stock. Ordinary money carries with it such complicated messages about value that it is useless providing the kind of pinpoint information that this kind of exchange requires.

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**The Swiss success story**

Wir – short for Wirtschaftsring – is Europe’s oldest bartering operation, aiming specifically at smaller companies, and is now so widespread in Switzerland that it amounts to a virtual parallel virtual currency with the Swiss franc. Wir started in 1934, the brainchild of Werner Zimmerman and Paul Enz, two followers of the economist Silvio Gesell, who urged the creation of negative interest currencies. By 1993, it had a turnover of €12bn and 65,000 corporate members. It provides working capital to smaller businesses in a parallel currency, with which they can buy goods and services from other members. The disadvantage for business is that they are unable to change their Wir currency – which is valued in Swiss francs – into national currency.

Members get a Wir cheque book, charge card and catalogue. They open a current account and pay 2.5 per cent on loans and 1.5 per cent on mortgages – though this is described not as interest but as a service charge – which has to be paid in Swiss francs. Customers are also charged 0.6 per cent of the value of each cheque in Wir. Most loans are secured on a second mortgage on company property, which is possible in a country where most Swiss first mortgages are for no more than 60 per cent of the value of the property. The main areas of specialisation are the building trade, restaurants and food. But members also include most kinds of business – even a circus. Not all take 100 per cent Wir on every trade.

The quiet success of Wir has not been replicated in other European countries so far, partly because of the trenchant traditional opposition of local banks. But their ability to grow and provide a service while charging considerably less than the commercial North American barter exchanges shows that there may be space for competition in this area.
An underground currency

Tickets for the London Underground will shortly be electronic digits on a smartcard, thanks to a £1.8 billion project. But imagine you could buy these journey units in small shops all over the capital and could exchange them easily, along the lines of a Mondex or Visacash card – from card to card. Imagine, like Mondex, that you could download them onto a card in a mobile phone. Mondex and Visacash are experimental electronic versions of pounds that can be held on cards, downloaded over the phone or via computer direct from your bank. The technology has advanced so much that you can now pay parking meters or drinks dispensers in Finland simply by phoning them up.

Now imagine that these units also circulated around London’s local economy, swapped from card to card by card readers in shops and pubs or kept in a handbag or pocket. Imagine that, as well as paying the price of an underground journey, you could also use them to buy what you need in the local economy. Let’s call this new electronic currency tubes. London underground may then find they have created a de facto regional currency, which can be redeemed in journeys – and is therefore not subject to the same inflation as pounds or euros – but which we can also use to buy a range of other things in the informal and maybe formal economy too.¹

Tubes could be bought in the normal way, of course. But they could also be issued into the economy in no-interest loans to small business – in return for a fee – and then earned by people providing a range of services in the local economy, ranging from building work to informal baby-sitting. The underground would get the fees and some benefit from ‘float’ – because it may be months before the tubes are redeemed by journeys.

Why shouldn’t bars have a particularly happy hour when they accept part payment in tubes? Why shouldn’t we launch a range of new babysitting circles and ‘favours’ groups that exchange tubes? The currency would be trustworthy and able to underpin a range of semi-economic activities that are simply not viable in an international currency like euros or pounds. The underground would be a bank for the local London economy, underpinning a network of smaller business as Wir does in Switzerland, and the big brand names probably wouldn’t accept them. The big utilities would find this kind of currency – one that can only be redeemed in London – hard to deal with. The chances are it would probably stay within the capital.

That is the thinking behind the successful scheme in the Brazilian city of Curitiba that pays points to people for recycling or handing in litter that can be used on the buses – funding the city’s clean-up out of spare public transport capacity. A similar but much more ambitious ‘NuSpaarPas’ scheme in Rotterdam began in May 2002, with backing from the city authorities and Rabobank.⁴³

• Regional currencies

These have emerged, usually in the form of notes issued by regional governments needing to inject liquidity into their local economy – and starting in Argentina in response to the close relationship with the dollar. This starved some of the more distant regions of cash, and they responded by printing their own bonds.⁴⁴ The same idea was taken to a bigger scale in response to the Argentine economic crisis in 2001 with the patacon, a bond issued in Buenos Aires that would expire after seven years. There should clearly be reservations about using debt-backed notes issued by local government to plug the gap left by debt-backed notes issued by central government – a catastrophic loss of belief would bring both down together. Argentina requires something more reliable, but there is no doubt that local notes are widely used.

Other regional currencies, intended to provide mutual credit in city regions, follow the Swiss Wir model or the Lets model. The best example of these were the four organisational currency systems launched in rural Scotland, rural Ireland, Madrid and Amsterdam in 1999 with support from the European Commission. These were less successful, though the Scottish model was re-launched as Scotbarter, using an electronic currency called the scotia.⁴⁵ A regional currency, the celt, has emerged in the West Country to facilitate trade between local Lets systems.⁴⁶

• Local currencies

Local currencies flourished during the Great Depression of the 1930s, popularised by the Yale economist Irving Fisher – but undermined by legal action by central banks on both sides of the Atlantic.⁴⁷ Michael Linton’s Lets model provides the most common approach, known as SEL in France and Banco de Tempo in Italy. There are around 100 Lets projects in the UK, and research has demonstrated that – although they are too small to have an economic effect, they are successfully helping unemployed people back into work.⁴⁸ Linton’s new software will

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enable an infinite number of currencies to be exchanged easily on the internet.\textsuperscript{49}

Outside Europe, local currencies like \textit{tlaloc} in Mexico City and Global Barter Clubs in Buenos Aires have emerged as vital support systems for people marginalised by economic collapse, re-using local resources locally, providing scarce liquidity in the local economy and giving value to surplus and home-made food.

The most successful local currency in the developed world is probably Ithaca \textit{hours} in upstate New York, which is accepted at about a third of the city’s shops, backed by the local chamber of commerce, and has been credited with protecting the town centre and reviving the local agricultural economy. Hours are a printed currency, like tlaloc, and there’s no doubt that – outside economic crisis – it is difficult to launch printed currencies on a population that isn’t used to them. But if you can, Ithaca is evidence that it can be very successful keeping local purchasing power circulating locally.\textsuperscript{50}

\begin{itemize}
\item \textbf{Social and volunteer currencies}
\end{itemize}

Time dollars and time banks have emerged as a major method of reviving social capital in disadvantaged neighbourhoods, especially in the USA, Japan and China. The emergence of city-wide touchscreens and a city-wide time currency under the auspices of the Member Organised Resource Exchange (MORE) in St Louis, as well as the London Time Bank (launched in 2001 by the New Economics Foundation), both take these systems to a new level.

Social currencies measure and reward the efforts that people make on behalf of the community or for neighbours, sometimes using resources to give value to the time credits – backing them with recycled computers or other rewards. Boulder, Colorado, allows people to pay fines in time credits if there is no other way of avoiding prison, for example. Baltimore’s housing authority requires tenants to pay part of their rent in time.\textsuperscript{51}

Volunteer currencies are very well developed in Japan, using a system of ‘paid volunteering’ called \textit{hureai kippu} (“ticket for a caring relationship”) through a network of nearly 1,000 projects which have emerged since the revival of volunteering that happened during the Kobe earthquake in 1994.

\textbf{London Time Bank}

The London Time Bank is a revolutionary project to provide a network of time banks across London, allowing people to earn loyalty point-style currency for helping neighbours. It uses the experience of the time banks in the USA and Japan to set up a similar network across the capital, ushering a new age of ‘mutual volunteering’. People of all ages can take part, earning ‘time credits’ for supporting local people, helping out in schools, giving lifts or whatever is needed – and spending them on support for themselves.

There are already 27 time banks in London, in schools, health centres and housing estates, earning and spending time credits that build local trust and – at the same time – cut the cost of treating people in the health centre too. Credits can be used to buy refurbished computers, and eventually also training.

Earning and spending time credits is a way to rebuild London’s social infrastructure. Reciprocal relationships between people can and do transform communities, and provide the basis for other kinds of regeneration. Time banks embedded in public services are able to access the skills and efforts of ordinary people in neighbourhoods, which is the only way of making sure that expensive professional and public services are actually effective.

The idea is that, eventually, every institution in London that needs to involve its customers as equal participants – from development agencies to doctor’s surgeries – will run time banks. London \textit{time credits} will soon be an instantly recognisable ‘currency’ for the capital, supporting the social economy where neighbours help neighbours – and unleashing the enormous resources of people’s time and skills on the intractable issues we all face.

\texttt{www.londontimebank.org.uk}
The euro as a parallel currency

All these currencies provide the possibility that they can underpin different aspects of local life, and provide different kinds of feedback that big currencies can’t provide. Barter pounds are able to provide value to dated or hard-to-sell surplus stock. Loyalty money is able to use surplus stock to unlock customer loyalty – and in the case of Rotterdam or Curitiba, to use surplus capacity on public transport to clean up cities. Social currencies are able to take other surpluses and use them to underpin local trust. Local currencies can add value to local skills and local products, which would otherwise be sidelined by the global economy.

With the euro or without the euro, Britain needs this kind of fine-tuning at the various levels of the economy. It would also be sensible to provide city regions with Wir-style barter currencies to underpin the small business sector. There are already a large number of models on offer, and it would be a mistake to settle on one or even a range of these, when better models might emerge if innovation was encouraged.

One parallel currency that seems most likely to join the pound circulating around the UK is the euro itself. Long before the referendum, most of Britain’s biggest retailers have promised to accept it. Tesco is already accepting euro travellers’ cheques. The arrival of the euro transforms Britain immediately into a multi-currency economy – in the process making other parallel currencies more acceptable and less surprising. The euro would also be a useful addition – used by people and companies who trade with Europe, or retailers who have a high proportion of customers from continental Europe, and providing economic feedback about the continental economy.

This seems likely to open up wider political possibilities too, especially if we encourage exporters to accept euros, and maybe to pay their staff partly in it. Having a parallel euro will be at least something of a hedge to guard the UK against the next generation of currency crises. It might mean a more limited campaign by pro-EMU advocates, having lost the referendum, for an incremental euro, taking its place alongside the pound because people use it, not because it is foisted on them. It might be a campaign step by step for local authorities to accept payment in euros or for the government to accept tax in euros.

But whether or not this comes to pass, a multiplicity of currencies – especially at the city and regional level – would provide an antidote to the problem of optimal currency zones. Those who find that there isn’t sufficient cash, in pounds or euros, to link local needs with local resources, can turn to another currency that recognises both. Those who argue about the need to reflate the economy to help the northern industrial cities – but worry about causing London to overheat – can simply reflate the regional economy around Liverpool. There is no reason why this kind of local reflation should cause inflation, because it can be tightly targeted: local currencies don’t flow across borders.

Multi-currency benefits

The multi-currency world is emerging already – not just in the 9,000 or so local currencies and time banks already running in the world or the new electronic currencies in the shape of loyalty points. It is emerging in the way international barter has been successfully using electronic currencies called trade pounds or trade dollars. The business world is already using these currencies, and for precisely the same reason – because big currencies don’t measure their assets very well. If business can do it, why should the benefits of this kind of technique not also be made available to regions, cities and communities?

To do that, communities will need to be able to break away from the old idea that money is one, indivisible, totemic, semi-divine truth, issued from on high by an infallible Treasury and handed down to a grateful populace. Business has managed to shake off that delusion, and other institutions must follow suit.

If they do so, complementary currencies can reveal to us that, even in the poorest places, there are vast living assets – ideas, skills, time – that can turn our idea of scarcity on its head. That means taking the power to create money back into our own hands. If we do that, we can use complementary currencies to target our increases in spending power to specific regions or communities, in a way that single currencies simply can’t without causing inflation. So whether we keep the pound – but even more if we abolish it – we need balancing mechanisms to help us see the world clearly, and that means a range of new kinds of money.
Open money and community way

Imagine a world where everyone had, not only an email address, but also a cc (community currency address), and could use it to create money in as many different currencies as they might want – a village currency, a baby-sitting currency, a city or regional currency, or an international currency for plumbers, for example.

The system already exists on the internet and it is breathtakingly simple, set up by the man who began Lets, Michael Linton, who has spent the last two decades working out how to make a money system that can simply provide people what they need without having to get a bank loan.

But embedded within it is a whole new idea about how communities can provide themselves with the money they need to live and use local resources, which is sponsored by business – but without it costing them anything. This is known as community way, and is operating in communities on the Canadian west coast. The idea goes like this:

- Local business create the electronic local money in the form of donations to local charities (at no cash cost to them because this is local money, though they pay for basic equipment).
- Next the charities sell these electronic points to local donors in return for donations in pounds or dollars.
- They then use the local money to buy what they want – all the participating businesses agree to accept it on their own terms, maybe 20, 50 or even 80 per cent of the normal price: whatever ensures their basic cash costs (including taxes) are covered in national money.
- It carries on circulating until it returns to the original business issuer, who is then encouraged to spend or donate it on again, keeping the loop going.

Businesses accept local money as a way of attracting new customers, and because it saves them money off their marketing budget. There are plans to put the same idea into practice in a big city like London, using smartcards, as well as the phone, internet and paper registers, which make the necessary transactions a bit smoother. www.openmoney.org

Domestic tradeable quotas

The innovative social innovator Bob Swann has suggested that regional currencies should be based on the value of renewable energy or other products that are ubiquitous locally. But when the greenhouse effect threw up the idea of tradable carbon emissions permits – now the basis of the international climate change negotiations – it provided a new possible basis for money.

Imagine, said the policy analyst David Fleming, that those emissions permits are not just credited towards nations, and traded by them, but credited to all of us as individuals and ordinary businesses – rather like wartime ration coupons. In fact it was Fleming’s childhood experiences with sweet rations that gave him the idea that the permits or coupons could be held on a personal smartcard and either spent or traded, just as nations do. The idea, introduced for the first time in an article in Country Life in 1996, would provide a kind of basic income to every individual, as of right.

The background to the scheme is our rapidly dwindling worldwide stocks of fossil fuels, and Fleming’s Domestic Tradable Quotas (DTQs), developed with Richard Starkey of the Centre for Corporate Environmental Management at the University of Huddersfield, are intended also as a method to involve everyone in reducing our carbon emissions. The idea was the subject of a European Commission workshop in 1998. www.dtqs.org
3 Conclusions and recommendations

“London is one of the richest cities in the history of civilisation, but it cannot ‘afford’ the highest standards of achievement of which its own living citizens are capable, because they do not ‘pay’. If I had the power today, I would surely set out to endow our capital cities with all the appurtenances of art and civilisation on the highest standards ... convinced that what I could create I could afford - and believing that money thus spent would not only be better than any dole, but would make unnecessary any dole. For what we have spent on the dole in England since the war we could have made our cities the greatest works of man in the world.”

John Maynard Keynes, ‘National Self-Sufficiency’, 1933

The UK should reject the idea of joining the euro, because of its potential to widen divisions inside the country between rich and poor, between south and north and between service and manufacturing – until they can put in place a comprehensive policy for parallel currencies.

The problem with Britain accepting the euro is not so much that it introduces a foreign element that suddenly undermines our control over our own economy – we have little control over it already. The problem is that it would exacerbate a situation that already exists: a single currency that doesn’t suit all economic sectors and all geographical corners of the country. That’s the danger of the euro as presently arranged. It means success for places that are already successful, but a real struggle for regenerating cities like Glasgow and Manchester. It means a potent recruiting ground for the next generation of extremists in the regions that lose out.

Put like that, the real issue isn’t so much whether or not Britain accepts the euro, but whether we abolish the pound – and how we deal with a problem that besets the economy either way. The euro without the stabilising factor of other parallel currencies could be seriously alienating; a euro balanced in that way could be a success.

Will the British government accept this in time to make any difference? Probably not: in which case, the answer to the euro referendum should certainly be no. The solution to the euro conundrum isn’t one currency, it is currency choice.

A euro policy tempered with local, regional and social currencies, providing support for the social economy and low- or no- interest loans to SMEs, would be consistent with decentralisation and local control. But instead of an all-or-nothing referendum campaign, flying in the face of public opinion – with the prospect of a society even more economically divided if we win – we could also empower people to use the currency that suits them best.

But that solution requires action now:

1. The Treasury must develop more sophisticated economic tests for the compatibility of the euro, that genuinely distinguish between cities and regions, and between sectors, that are likely to do well or badly.

2. The government should encourage the acceptance of euros widely in British retailing, but also by companies that do business with Europe – primarily by agreeing to accept euros and other selected currencies for taxes and fines: unless they are prepared to accept euros – or other currencies – themselves, the growth of a multi-currency structure is going to be limited. There are also benefits ambiguities with the social currencies that urgently need sorting out, although the Benefits Agency has discounted time credits earned through time banks. Local authorities will find that if they are prepared to accept other currencies, even for a proportion of local taxes, then local businesses will too – and they will be able to spend them as well, keeping local purchasing power local.

3. Local authorities and other public institutions should develop city currencies: this would provide them with a useful lever on two difficult problems – keeping local purchasing power circulating locally, and providing low-cost loans to employment-building SMEs. They will probably include the following:

- Mutual credit currencies based on open software like that being developed by Michael Linton. We expect that there will be currencies like these in most UK cities within ten years: at least 1,000 – ranging from sophisticated baby-sitting circles to fully-fledged regional currencies.

- Time currencies, based on networks like the London Time Bank and using smartcards, that underpin local communities and allow public institutions to make use of local resources of time.
and skill. We expect there to be networks of these in every UK region within ten years.

- Experimental currencies, based on local authority bonds (fluctuating in value against each other), or local renewable energy (as proposed by Bob Swann), or local produce, or local transport stored value – used to provide interest-free loans to small business.\(^{53}\)

4. **Banks should make it easier to accept euros for companies and individuals in the UK:** that means offering parallel euro bank accounts and providing new ways that people can exchange currencies, online and offline.

5. **Ambiguities in the European Electronic Cash Directive must be ironed out:** the development of other kinds of electronic currencies would be seriously hampered if the European Directive was applied to them. There are some interpretations which might give the directive the power to force issuers of electronic currencies – as well as electronic cash – to redeem their currency in euros. That would undermine the emerging new currencies, and hold back innovation of new kinds of exchange.

6. **City regions should take a lead developing smartcards that can be used to hold new currencies:** government agencies and quangos are in a powerful position to help along the development of the new currencies by making space available on their new smartcards, which can be funded by renting other card space to other applications. The best example so far is the London Underground, whose smartcard is rolled out shortly – which provides an enormous opportunity as the basis of a London currency to underpin SMEs in the capital (see box on page 12).

7. **Education and training quangos must launch ‘learning’ currencies, or co-operate with regional currencies, to maximise the use of training resources locally:** the success of the New Economics Foundation’s Skill Swap projects can provide the basis for these. These projects would dovetail with regional plans for volunteer smartcards that could hold credits earned through time banks (see on London Time Bank, page 13), and spent on training, refurbished computers or other surplus capacity.

8. **The Benefits Agency must extend their disregard for time credits and other community-building currencies so that recipients can ‘earn’ training or computers that would benefit their development:** that would allow time banks to become an infrastructure for distributing technology and other services to socially-excluded families. The abortive Computers Within Reach scheme by the DfEE collapsed because it was impossible either to give computers away for nothing (people wouldn’t value them) or to charge for them. Time banks allow computers or training to be ‘earned’ for time, which builds local trust and connections.

9. **The government needs to launch a currency development fund to encourage innovative projects:** cities and communities can then bid for support to create networks and infrastructure, to support SMEs or build communities – or research bigger currency projects. The infrastructure can be paid for by launching smartcards, funded by leasing space on them to other applications.

10. **The government needs to bring together regional offices, banks and insurance companies to discuss how to enable parallel currencies to act as collateral for a loan in euros or pounds:** this will mean getting some parallel currencies underwritten by third parties.
Notes

7 The Independent, 2 January, 1999.
19 The Economist, 8 August, 1998.
41 See also Neal, Terry L. and Eisler, Gary K.: Barter and the Future of Money, MasterMedia, New York, 1996.
49 See www.openmoney.org
51 Ibid.
52 See www.openmoney.org
Beyond Yes and No: a multi-currency alternative to EMU

This is a report about the euro, but with a difference. It aims to apply the principles of the new economics to the vexed question of whether Britain should take part in European Monetary Union.

The report argues that the debate should not be side-tracked over whether Britain should adopt the euro and abolish the pound, but whether big, single currencies are appropriate for Britain or the regions and communities within it. The key issue is the way that big currencies pervert the accuracy of economic information fed back from local economies to the centre, and the consequent devaluing of local life.

The report applies the ideas of optimal currency zones to the EMU project. The implications of this are that ending fluctuations between currency values will have serious effects. Without some other action, EMU is liable to go the same way as the similarly inflexible gold standard of the 1920s.

The report proposes an alternative strategy that could avoid the fate that befell the return to the gold standard two generations ago. It concludes that:

- The euro will only work for everyone in the UK as part of a multi-level system of complementary currencies.
- Without that system, it is likely to widen divisions between North and South, between rich and poor, between multinational and local business, and between industry and financial services.

David Boyle is an associate of the New Economics Foundation, and the author of Funny Money, The Tyranny of Numbers, The Money Changers and Authenticity. He was also the author of NEF’s first pocketbook, Why London Needs its own Currency.

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