



## Locabucks: Are local currencies a way to escape the liquidity trap ?

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[Locavores](#), [locastores](#) and [locavolts](#) have caught my attention lately - 3 strands of the "relocalisation" idea that tends to get a lot of attention in peak oil circles.

Another localisation oriented idea that gets less press attention is the concept of local currencies (or "locabucks" as I'm now dubbing them), an idea which has its roots in the Great Depression as a mechanism for escaping the liquidity trap - and thus might be relevant again in the not-too distant future if present trends continue.



### Local currencies in the 1920's and 1930's

The most frequently cited examples of local currency were issued in the Bavarian town of [Schwanenkirchen](#) and the Austrian community of [Wörgl](#), described in this article on "[Laboratory readings: Wörgl's Stamp Scrip – The Threat of a Good Example?](#)":

On July 5th 1932, in the middle of the Great Depression, the Austrian town of Wörgl made economic history by introducing a remarkable complimentary currency. Wörgl was in trouble, and was prepared to try anything. Of its population of 4,500, a total of 1,500 people were without a job, and 200 families were penniless.

The mayor, Michael Unterguggenberger, had a long list of projects he wanted to

accomplish, but there was hardly any money with which to carry them out. These included repaving the roads, streetlighting, extending water distribution across the whole town, and planting trees along the streets.

Rather than spending the 40,000 Austrian schillings in the town's coffers to start these projects off, he deposited them in a local savings bank as a guarantee to back the issue of a type of complimentary currency known as 'stamp scrip'. This requires a monthly stamp to be stuck on all the circulating notes for them to remain valid, and in Wörgl, the stamp amounted 1% of the each note's value. The money raised was used to run a soup kitchen that fed 220 families.

Because nobody wanted to pay what was effectively a hoarding fee [technically known as 'demurrage' and often referred to as "negative interest"], everyone receiving the notes would spend them as fast as possible. The 40,000 schilling deposit allowed anyone to exchange scrip for 98 per cent of its value in schillings. This offer was rarely taken up though.

Of all the business in town, only the railway station and the post office refused to accept the local money. When people ran out of spending ideas, they would pay their taxes early using scrip, resulting in a huge increase in town revenues. Over the 13-month period the project ran, the council not only carried out all the intended works projects, but also built new houses, a reservoir, a ski jump, and a bridge. The people also used scrip to replant forests, in anticipation of the future cashflow they would receive from the trees.

The key to its success was the fast circulation of scrip within the local economy, 14 times higher than the schilling. This in turn increased trade, creating extra employment. At the time of the project, Wörgl was the only Austrian town to achieve full employment.

Six neighbouring villages copied the system successfully. The French Prime Minister, Eduoard Dalladier, made a special visit to see the 'miracle of Wörgl'. In January 1933, the project was replicated in the neighbouring city of Kirchbuhl, and in June 1933, Unterguggenburger addressed a meeting with representatives from 170 different towns and villages. Two hundred Austrian townships were interested in adopting the idea.

Unterguggenberger was opposed to both communism and fascism, championing instead what he referred to as 'economic freedom'. Therefore, it was deeply ironic that the Wörgl experiment was first branded 'craziness' by the monetary authorities, then a Communist idea, and some years later as a fascist one.

The Wörgl experiment was watched by [John Maynard Keynes](#) and [Irving Fisher](#), who saw a fast-depreciating currency as a possible answer to the 1930s "liquidity trap" and documented the subsequent use of "scrip" in the United States ([Fisher](#) is also infamous for predicting, a few days before the Stock Market Crash of 1929, "Stock prices have reached what looks like a permanently high plateau.").

Wörgl's venture into local currencies ended when its scrip was declared illegal by Austria's central bank in 1933, after a further 200 other communities commenced launching copycat currencies, threatening the monopoly of currency issuance by the state. The town went back to 30% unemployment. In 1934, social unrest exploded across Austria.

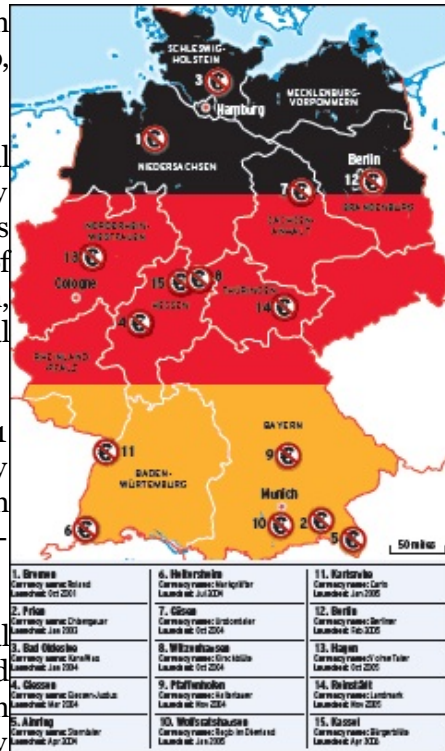
The Schwanenkirchen effort had a similar outcome - in November 1931, the German Government passed an emergency law ending the circulation of the "Wara".

## Local Currencies Today

Local currencies are still alive in central Europe today, with something like 65 regional currencies competing with the Euro, according to [Ambrose Evans-Pritchard](#).

The most frequently cited example is the Chiemgauer - a local currency (also called schwundgeld, scrip or specie) accepted by 550 restaurants, bakeries, hairdressers, co-operative banks and a network of supermarkets in the Bavarian region of Chiemgau (though petrol stations remain a glaring exception, other than some biofuel outlets). Notes are used like legal tender and can even be accessed by debit card.

The Chiemgauer was issued in January 2003 at a rate of 1:1 against the euro, and is designed to lose 2pc of its value every quarter. Usage is reportedly expanding by 70pc a year, though monthly turnover was a meagre €135,000 when Evans-Pritchard wrote his article.



Evans-Pritchard says the Chiemgauer is one of 16 regional currencies that have emerged across Germany, Austria and northern Italy since the launch of the euro five years ago, with another 49 regions in the pipeline. They are mostly issued by activists, farmers, eco-enthusiasts, anti-globalists, and citizen committees.

The actual turnover of these currencies remains miniscule, so the Eurozone authorities are relaxed about competition for the time being. The Bundesbank is keeping an eye on them however, publishing a report titled "Regional Currencies in Germany, Local Competition for the Euro?".

Local currencies aren't restricted to the Germanic world - there are some examples alive and well in the Anglosphere as well, including [Ithaca HOURS](#), [Berkshares](#) (which have gathered some [mainstream media](#) attention) and the [Totnes Pound](#). Dutch organisation [STRO](#) is also implementing pilot projects in Brazil, Central-America, Asia and the Netherlands.

[John Robb](#) thinks local currencies are a useful tool for building resilient communities, but notes that they remain "a lifestyle choice" at present. Robb believes that the Worgl experience in the 1930's indicate that scrip "adoption, velocity and robustness" could be accelerated by:

- \* Allowing community members to use it to pay all or part of their tax liabilities to local governments. This instantly establishes a market for the currency. Also, pay local government employees a portion of their wages in scrip.
- \* Deflating [devaluing] the value of the scrip (optimally, one percent per month) to promote immediate use rather than hoarding.
- \* To the extent possible, connecting scrip to local production rather than retail. Locally produced food (farmer's markets), energy (via local microgrids), products (personal fabs), and labor/services. Further, work with local banks to establish checking accounts for scrip and to enable conversions hard currencies (at a slight discount).

## Local Currencies And The Environment

Another reason for interest in local currencies has sprung from [ecological concerns](#), outlined by

The most recent reason for interest in stamp scrip and similar alternative monetary systems in the West or in Japan [Otani 1981; Henderson, 1981; Kennedy, 1988 ; Suhr,1989] results from environmental concerns.

"The higher the money-rate of interest, the higher is the pressure on entrepreneurs to avoid internal costs, that is, to externalize into the environment as much as the cost as is possible. Thus under neutral money, when interest goes to zero, this additional burden on resources will cease" [Suhr, 1988, page 112].

When it pays more to cut a tree, sell the wood and let the proceeds earn interest than simply let the tree grow, it is predictable that "economic pressures" will be felt to cut more trees than is optimal from an ecological viewpoint. Stamp Scrip would reverse that process. It is interesting to notice that this point was also demonstrated in practice: indeed during the experiment with stamp scrip in Austria during the Depression of the 1930's, the incentive for not hoarding was such that people preferred to invest in replanting trees.

As ecological concerns are gradually creeping to the top of political agendas worldwide, this aspect alone justifies the experimentation suggested in this note.

These three objectives: spontaneous creation of employment, inflation control, and ecologically conscious growth are the three results that economists can predict from the introduction of stamp scrip.

However, even more persuasive than any theoretical discussion is compelling evidence from case histories: such systems have indeed been used in the past in a variety of cultures, sometimes for centuries, and have always had a significant positive impact.

## Conclusion

Local currencies can be an effective tool for enabling communities to escape from a liquidity trap, however they appear likely to remain in common use only as long as liquidity is in short supply or inter-regional trade is heavily restricted (or, perhaps, biased).

Retaining convertibility into other stores of value (a hard currency, or a commodity such as gold) is important to avoid pitfalls like the "company store" phenomenon, where the people being paid in scrip have no way of redeeming it for goods outside a very restricted set of businesses.

Ensuring that scrip is devalued at a well understood rate is also important to keep the velocity of money high.

## Postscript - Silvio Gesell and "The Ascent of The West"

The idea of local currencies was first described by [Silvio Gesell](#), in his book "[The Natural Economic Order](#)".

Only money that goes out of date like a newspaper, rots like potatoes, rusts like iron, evaporates like ether, is capable of standing the test as an instrument for the exchange of potatoes, newspapers, iron and ether.







Gesell also wrote an essay entitled "The Ascent of the West", which was written to challenge the cultural pessimism of Oswald Spengler's "The Decline of the West".

Gesell hoped that humanity would gradually be able to regenerate itself under a reformed economic order and experience a new cultural renaissance.

Its worth noting that local currencies did exist prior to the (literal) Renaissance before they were replaced with [centralised currencies](#).

Centralized currency -- invented during the Renaissance, really -- favors the kinds of business practices and centralization of power that actually works against good, honest, local commerce. In short, it favors Wal-Mart over, say, Community Supported Agriculture.

There are other kinds of money – and they were in existence until they were outlawed by kings and queens looking to centralize authority. Money that is lent into existence by a central bank will tend towards scarcity and competition. Money that is earned into existence by people in a specific place has very different properties, and works on a model of abundance.

Gesell was a German theoretical economist who grew up in Europe, before moving to Argentina in 1887. A depression stuck Argentina shortly thereafter, which caused him to study the [structural problems caused by the monetary system](#), before moving back to Europe in 1911.

His experiences during an economic crisis at that time in Argentina led Gesell to a viewpoint substantially at odds with the Marxist analysis of the social question: the exploitation of human labour does not have its origins in the private ownership of the means of production, but rather occurs primarily in the sphere of distribution due to structural defects in the monetary system. Like the ancient Greek philosopher Aristoteles, Gesell recognised money's contradictory dual role as a medium of exchange for facilitating economic activity on the one hand and as an instrument of power capable of dominating the market on the other hand. The starting point for Gesell's investigations was the following question: How could money's characteristics as a usurious instrument of power be overcome, without eliminating its positive qualities as a neutral medium of exchange ?

He attributed this market-dominating power to two fundamental characteristics of conventional money:

Firstly, money as a medium of demand is capable of being hoarded in contrast to human labor or goods and services on the supply side of the economic equation. It can be temporarily withheld from the market for speculative purposes without its holder being exposed to significant losses.

Secondly, money enjoys the advantage of superior liquidity to goods and services. In other words, it can be put into use at almost any time or place and so enjoys a flexibility of deployment similar to that of a joker in a card game.

These two characteristics of money give its holders a privileged position over the suppliers of goods and services. This is especially true for those who hold or control large

amounts of money.

They can disrupt the dynamic flow of economic activity, of purchases and sales, savings and investment. This power enables the holders of money to demand the payment of interest as a reward for agreeing to refrain from speculative hoarding thereby allowing money to circulate in the economy.

This intrinsic power of money is not dependent on its actual hoarding, but rather on its potential to disrupt economic activity which enables it to extract a tribute in the form of interest in return for allowing the "metabolic exchange" of goods and services in the "social organism". The "return on capital" is accorded priority over broader economic considerations and production becomes attuned more to the monetary interest rate than to the real needs of human beings. Long-term positive interest rates of interest disturb the balance of profit and loss necessary for the decentralized self-regulation of markets. Gesell was of the opinion that this led to a dysfunction of the social system exhibiting very complex symptoms: the non-neutrality of interest-bearing money results in an inequitable distribution of income which no longer reflects actual differences in productivity. This in turn leads to a concentration of monetary as well as of non-monetary capital and therefore to the predominance of monopolistic structures in the economy.

Since it is the holders of money who ultimately decide whether it circulates or stands still, money can't flow "automatically" like blood in the human body. The circulation and the correct dosage of the monetary supply can't be brought under effective public control; deflationary and inflationary fluctuations of the general price level are inevitable. In the course of the business cycle when declining interest rates cause large amounts of money to be withheld from the market until the outlook for profitable investments improves, the result is economic stagnation and unemployment.

... to a Neutral Servant of Economic Activity

In order to deprive money of its power, Gesell did not advocate recourse to measures aimed at outlawing the taking of interest such as the canonical prohibition of medieval. On the contrary, he envisaged structural changes in the monetary system involving the imposition of carrying costs on the medium of exchange, thereby counteracting the tendency to hoard and neutralising the liquidity advantage of conventional money. The imposition of such carrying costs on liquid monetary assets - comparable to a demurrage fee for freight containers in the field of transport economics - would deprive money of its power to dominate the market while allowing it to fulfil its designated function as a medium of exchange facilitating economic activity. Counteracting disruptions in the circulation of the medium of exchange due to speculative hoarding would allow the quantity and velocity of the monetary supply to be periodically adjusted to match the volume of production and the overall level of economic activity in such a way that the purchasing power of the monetary unit could be made to possess the same long-term stability as other weights and measures.

In his earliest works Gesell referred in particular to "rusting bank notes" as a method for implementing an "organic reform" of the monetary system. Money which had hitherto been "dead foreign matter" with respect to both the social system and the natural world, would thus be integrated into the eternal cycle of life and death, becoming transitory and losing its characteristic of limitless self-multiplication by means of simple and compound interest. Such a reform of the monetary system would constitute a regulative holistic therapy; by removing the cause of disruptions in monetary circulation Gesell envisaged that the self-healing powers of the dysfunctional social "organism" would gradually increase allowing it to recover from the diverse economic and structural

symptoms of crisis, ultimately reaching a state of equilibrium, in harmony with the rest of the natural order.

In his main work, *Die Natürliche Wirtschaftsordnung durch Freiland und Freigeld* (The Natural Economic Order through Free and and Free Money), published in Berlin and Bern in 1916, Gesell explained in detail how the supply and demand of capital would be balanced in the case of uninterrupted currency circulation so that a reduction of the real rate of interest below the presently existing barrier of around 3-4% would become possible. Gesell used the term "basic interest" (Urzins) to denote this pure monetary interest rate of around 3-4% which is found to vary little historically. It represents the tribute of the working people to the power of money and gives rise to levels of unearned income far in excess of that suggested by its magnitude. Gesell predicted that his proposed currency reform would gradually cause the "basic interest" component to disappear from the monetary loan rate leaving only a risk premium and an administrative charge to allow lending institutions to cover their costs. Fluctuations of the market rate of interest around a new equilibrium point close to zero would allow a more effectively decentralised channeling of savings into appropriate investments. Free Money (Freigeld), a medium of exchange liberated from the historical tribute of "basic interest", would be neutral in its impact on distribution and could no longer influence the nature and extent of production to the disadvantage of producers and consumers. Gesell envisaged that access to the complete proceeds of labour brought about by the elimination of "basic interest" would enable large sections of the population to give up wage- and salary-oriented employment and to work in a more autonomous manner in private and cooperative business organisations.

In 1919, Gesell was appointed "People's Representative for Finances" in the short-lived Bavarian Soviet Republic and immediately wrote a law for the creation of Freigeld. His term of office lasted only 7 days, and he was fortunate to escape a charge of treason after the overthrow of the Soviet Republic and its integration back into Germany.

Gesell's ideas spawned a political movement in Germany called "Freiwirtschaft" (Free Economy) party, which contested the 1932 elections without success. After the Nazi Party's seizure of power in 1933, many Free Economy supporters supported the new regime in the hope that Hitler might act on the earlier rhetoric of Gottfried Feder concerning "the smashing of interest-slavery". This proved to be a false hope and in the spring of 1934 the various Free Economy organisations which had not already voluntarily disbanded were finally outlawed.

Given the final destination of the pre-war Free Economy movement, I figured it was worth checking to see if Gesell held some of the more unpalatable views common to the time, such the "blood and soil" beliefs held by [some of the greens](#) that joined the Nazi "[rogue coalition](#)". It seems from [this account](#) that Gesell was no nationalist though, and explicitly rejected this line of thought.

Towards the end of the last century Gesell extended his vision of socio-economic reform to include reform of the system of land tenure. He derived inspiration in this respect from the work of the North-American land reformer Henry George (1839-1897), author of *Progress and Poverty*, whose ideas about a Single Tax on the rental value of land became known in Germany through the activity of land reformers like Michael Flurschheim (1844-1912) and Adolf Damaschke (1865-1935).

In contrast to Damaschke, who only advocated taxing the increase in values for the benefit of the community while retaining the principle of private ownership of land, Gesell's reform proposals followed those of Flurschheim who called for the transfer of land into public ownership, compensating the former owners and thereafter leasing the land

for private use to the highest bidder. Gesell argued that as long as land remains a tradeable commodity and an object of speculative profit, the organic connection of human beings with the earth is disturbed.

In contrast to the proponents of nationalist or racially-oriented Blut und Boden ideologies, Gesell rejected the association of "blood" with "land". As a widely travelled citizen of the world he viewed the whole earth as an integral organ of every individual. All people should be free to travel over the surface of the earth without hinderance and settle anywhere regardless of their place of birth, color or religion. ...

From his earliest writings onwards Gesell distanced himself from racist ideologies, aiming to develop an objective critique of structural defects in the economic order free from the subjective racial prejudice of anti-Semitic demagogues whose diatribes against so-called "Jewish" usurers he criticised as a "colossal injustice". Like many of his contemporaries he was greatly influenced by Darwin's Theory of Evolution and viewed his program of reform as a means for encouraging a more healthy evolution of human society. However, Gesell should not be classified as a "Social Darwinist" because he believed that extremes of wealth and poverty reflect structural defects in the economic order rather than real differences in aptitude and productivity. Opposed to ultra-nationalist triumphalism he advocated the promotion of mutual understanding between Germany and its eastern and western neighbours. He called for the abandonment of expansionist politics and the formation of a voluntary confederation of European states to promote international cooperation. Gesell also drew up proposals for an international post-capitalist monetary order, advocating an open world market without capitalist monopolies, customs frontiers, trade protectionism and colonial conquest. In contrast to subsequently established institutions such as the International Monetary Fund and World Bank, which act on behalf of the powerful within the existing framework of unjust structures, or the present preparations for European Monetary Union, Gesell called for the establishment of an International Valuta Association, which would issue and manage a neutral international monetary unit freely convertible into the national currency units of the member states, operating in such a way that equitable international economic relations could be established on the basis of global free trade.

Gesell's political leanings seem to be best described as "individualist-mutualist". I like Robert Anton Wilson's explanation of individualist-mutualist theory, so I'll let him outline the idea and a few alternatives to Gesell's ideas regarding money. From "[Left and Right: A Non-Euclidean Perspective](#)":

In the late '50s, I began to read widely in economic "science" (or speculation) again, a subject that had bored the bejesus out of me since I overthrew the Marxist Machine in my brain ten years earlier. I became fascinated with a number of alternatives - or "excluded middles" - that transcend the hackneyed debate between monopoly Capitalism and totalitarian Socialism. My favorite among these alternatives was, and to some extent still is, the individualist-mutualist anarchism of Proudhon, Jossiah Warren, S.P. Andrews, Lysander Spooner and Benjamin Tucker. I do not have a real Faith that this system would work out as well in practice as it sounds in theory, but as theory it still seems to me one of the best ideas I ever encountered.

This form of anarchism is called "individualist" because it regards the absolute liberty of the individual as a supreme goal to be attained; it is called "mutualist" because it believes such liberty can only be attained by a system of mutual consent, based on contracts that are to the advantage of all. In this Utopia, free competition and free



cooperation are both encouraged; it is assumed persons and groups will decide to compete or to cooperate based on the concrete specifics of each case. (This appeals to my "existentialism" again, you see.)

Land monopolies are discouraged in individualist-mutualist anarchism by abolishing State laws granting ownership to those who neither occupy nor use the land; "ownership," it is predicted, will then only be contractually recognized where the "owner" actually occupies and used the land, but not where he charges "rent" to occupy or use it. The monopoly on currency, granted by the State, is also abolished, and any commune, group, syndicate, etc., can issue its own competing currency; it is claimed that this will drive interest down to approximately zero. With rent at zero and interest near zero, it is argued that the alleged goal of socialism (abolition of exploitation) will be achieved by free contract, without coercion or totalitarian Statism.

That is, the individualist-mutualist model argues that the land and money monopolies are the "bugger factors" that prevent Free Enterprise from producing the marvelous results expected by Adam Smith. With land and money monopolies abolished, it is predicted that competition (where there is no existential motive for cooperation) and cooperation (where this is recognized as being to the advantage of all) will prevent other monopolies from arising.

Since monopolized police forces are notoriously graft-ridden and underlie the power of the state to bully and coerce, competing protection systems will be available in an individualist-mutualist system, You won't have to pay "taxes" to support a Protection Racket that is actually oppressing rather than protecting you. You will only pay dues, where you think it prudent, to protection agencies that actual perform a service you want and need. In general, every commune or syndicate will make its own rules of the game, but the mutualist-individualist tradition holds that, by experience, most communes will choose the systems that maximize liberty and minimize coercion.

Being wary of Correct Answer Machines, I also studied and have given much serious consideration to other "Utopian" socio-economic theories. I am still fond of the system of Henry George (in which no rent is allowed, but free enterprise is otherwise preserved); but I also like the ideas of Silvio Gesell (who would also abolish rent and all taxes but one--a demmurgage tax on currency, which should theoretically abolish interest by a different gimmick than the competing currencies of the mutualists.)

I also see possible merit in the economics of C.H. Douglas, who invented the National Dividend--lately re-emergent, somewhat mutated, as Theobold's Guaranteed Annual Wage and/or Friedman's Negative Income Tax. And I am intrigued by the proposal of Pope Leo XIII that workers should own the majority of stock in their companies.

Most interesting of recent Utopias to me is that of Buckminster Fuller in which money is abolished, and computers manage the economy, programmed with a prime directive to advantage all without disadvantaging any -- the same goal sought by the mutualist system of basing society entirely on negotiated contract.

### Further Reading:

- \* Bernard A. Lietaer - [A Strategy for a Convertible Currency](#)
- \* Shwarz, Fritz - [The Experiment in Worgl](#)
- \* Werner Onken - [A Market Economy without Capitalism](#)

\* FEASTA - [Money Systems](#)

\* [Transaction.net](#)

\* Tim Boucher - [Free \(Online\) Banking & The Free Banking Era](#)

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