The American Conservative

Crunchy Currency

Communities secede from globalism by making their own money.

By Vincent D'Agostino | November 10, 2011

Ithaca Hours

[1]The recession of the early '90s will probably be remembered by historians as the downturn that cost George H.W. Bush his job. But one day it might also be recognized for spawning a new monetary system. At the height of economic anxiety in November 1991, a community organizer named Paul Glover decided to start his own currency, called Hours, in Ithaca, NY. Today, it's the nation's oldest local currency still in use, a trendsetter that's been joined by other substitutes for the greenback that have sprung up nationwide since the onset of the Great Recession.

Contrary to what one might expect, the movement for local currencies is not dominated by conservative and libertarian followers of Ron Paul eager to "End the Fed." In fact, the political left has been most receptive to the cause of region-specific money.

Glover—who has started about 18 different organizations in his lifetime, most of them advocating a fusionist mix of progressive and localist policy—explains the situation he faced in the early '90s: "Ithacans had too few dollars, even though we were ready to produce and to purchase. We needed more money and more control of investment and interest rates."

He decided to solve the problem himself by issuing a currency that could only be used in the Ithaca area. After designing the Hour and convincing 90 local citizens and small businesses to agree to use it, he published his first newspaper directory of participants and invited everybody else in the small college town to, in his words, "join the fun."

The system is relatively simple. The currency is managed by a board of directors, who are elected by members of the Hours program. To become a member, one need only pay a yearly fee to be listed in the newspaper directory. The Hours themselves are pegged to the U.S. dollar at a fixed 10:1 ratio—$10 buys one Hour, a rate that hasn't changed since the system started in 1991.

Hours are pumped into the local economy through grants given to community organizations and interest-free loans, with the board determining who receives these funds. The largest loan to date was worth 3,000 Hours. According to Glover, 11,000 Hours have been issued since the system started, but the amount in circulation is unknown.

Once bought, Hours can't be converted back into dollars, ensuring that the money is kept in the region. Hours also can't be deposited in checking or savings accounts because, as Glover says, "Hours are designed to be spent rather than saved."

The system is legal: any citizen can print his own currency—so long as it doesn't resemble U.S. dollars.

And from a historical perspective, local currencies are nothing new. Privately made coins circulated widely in England at the dawn of the Industrial Revolution, and local bank notes were commonplace in America until the Civil War. During the Great Depression, local paper currencies were popular on both sides of the Atlantic as deflation made national currencies scarcer.

Local currencies in the U.S. disappeared once the Depression was over. But in the 20 years since the Hour debuted, 80 more have sprung up in the U.S. and Canada, many using the program in Ithaca as a model. Others have adopted systems in which, for example, one unit of local currency can be purchased for $0.95 but will be accepted in stores at a full dollar's worth. That type of system essentially turns the currency into a buy-local discount program.

Ed Collom, associate professor of sociology at the University of Southern Maine, is one of the few academics currently studying the local-currency movement. He says that the individuals who start these programs primarily want to "empower the economically marginalized and build social capital."

"It's something that people can identify with and unify around," says Larry Chang, founder of a currency known as the Potomac used in the greater Washington, D.C. area. "When a merchant puts up a sign that says 'We use Potomacs,' that person is giving the community a very strong signal. It's telling them that he is here to stay. He belongs to that community."

The desire to build social relationships often leads groups developing local currencies to put constraints on their use. According to Susan Witt, co-founder of the Berkshare, a currency in Western Massachusetts, those who use Berkshares are required to have a signed receipt after every transaction, thus ensuring that economic interactions are person-to-person. "That's an inconvenience to some," she said, "but it's an inconvenience that creates new relations, creates new knowledge."

The primary goal is to keep money in the community—to ensure, as Chang describes it, that "profits do not leak out of the area." "Our long-term goal with Berkshares," says Witt, "is to create a citizen-initiated tool that can help encourage local production and revive regional economies." These vibrant regional economies will in turn "create a vital national economy."

Since the Great Recession began in 2007, ten new local currencies have started up across the country, in locales as diverse as Mesa, Arizona and Bentonville, North Carolina. Last March, the Berkshares website recorded 42,000 hits a day—even though the region in which the currency circulates only has a population of 19,000. "That was not local people. That was an international community interested in how a local community was approaching issuing its own currency," says Witt.

But the track record of previous local currencies doesn't bode well for the newer crop. In a 2004 study, Collom found that only 20 percent of currencies created after 1991 were still functioning. "These systems are hard to maintain," he says. "Many of these systems experienced burnout from the volunteer administrators or were never able to recruit enough regular participants to get the networks stable."

Even the Ithaca Hour has found it difficult to sustain its momentum. According to Glover, "At their height in 1996, Hours were celebrated and traded broadly. The system continues 20 years later but has become smaller." He adds, "the success of a community credit system requires professional networking to constantly promote, troubleshoot, and facilitate circulation."

Local currencies fail when the groups running the programs lose interest—or, as was the case in Holland, Michigan in 2009, go out of business completely.

There, the Holland Area Chamber of Commerce developed a rudimentary local currency known as HollanDollars in 2001. HollanDollars were usually purchased as gift certificates for friends and family and could be redeemed at 200 area retailers, who in turn could cash in HollanDollars for U.S. dollars. The Chamber of Commerce contracted out administration of HollanDollars to CertifiChecks, a private company that agreed both to sell the HollanDollars to consumers and to redeem them for U.S. dollars when retailers turned them in.

But the system collapsed when CertifiChecks unexpectedly went bankrupt in 2009, a victim of the very recession that communities had hoped local currencies would insulate them from. There was still $100,000 worth of HollanDollars yet to be redeemed, and with CertifiChecks bankrupt, there was a real danger that anyone holding the currency would be stuck with worthless money that no business would accept.

The Holland Area Chamber of Commerce agreed to reimburse everybody who still held the currency. Had the Chamber not done so, instead of keeping money within the community, the HollanDollar would have effectively facilitated the flight of $100,000 outside the area.

Although local-currency experiments in the U.S. have yielded often dispiriting results, some in Europe have created sustainable forms of money. The most successful small-scale currency in Europe is the Swiss WIR, which began in the 1930s as a means by which businesses could trade with one another. It's operated by the WIR Bank, which opened the currency to individual users a few years ago, encouraging them to buy WIR with their francs. The program has 62,000 members, and as of 2006 there were 1.6 billion WIR in circulation.

Those are numbers that local efforts in the U.S. don't come close to matching. A key difference is that the WIR Bank is a stable and influential financial institution that employs full-time professionals. Most currencies on this side of the Atlantic don't have those financial or human resources.

One comes close, though. Because of its close affiliation with the New Economics Institute (NEI)—a think tank formerly known the E.F. Schumacher Society and which is also closely connected to the New Economics Foundation in London—the Berkshare currency has exceptionally strong institutional support. Five local banks are involved with the Berkshare, lending staff with financial expertise to the project.

The people behind the Berkshare are realistic about the present state of regional money in America. "Local currencies are too small yet to have made a big economic difference," admits Witt, who apart from being a co-founder of the Berkshare is also the education director of NEI. She even goes so far as to say that the Berkshare isn't a true currency. "It's a sophisticated local buying note."

But Witt gets noticeably excited when talking about the future of local currencies—a future that includes being freed from the dollar. "To begin to unpeg from the dollar would also mean unpegging from full convertibility. It would mean having the confidence that Berkshares have more intrinsic value because of the way they're issued."

Witt is adamant that such a program will require a strong organization behind it to be successful, which won't necessarily be NEI. "It's no longer the NEI's program, it's the Southern Berkshires' program," she says.

In the dollar's place, Witt and others connected to the Berkshare want to peg the currency to commodities produced in the region. "Maple syrup is on the top of our list," she says. The goal is to have a stable currency that holds its value over time.

Not everybody who has studied local currencies is as optimistic about their potential as Witt, however. George Selgin, an economics professor at the University of Georgia and a senior fellow at the Cato Institute, is among the skeptics. Selgin is the author of *Good Money: Birmingham Button Makers, the Royal Mint, and the Beginnings of Modern Coinage*, a book detailing the history of local, private currencies in England at the beginning of the Industrial Revolution.

Selgin is no admirer of the Federal Reserve. In its place, he would prefer a denationalized currency system with private currencies competing in the free market. That might sound very similar to the ideals of local-currency proponents, but Selgin doesn't like to confuse the two: "They really are different. Not all private currencies are local and not all local currencies are private. There have been and there still are private currencies that are not local," he says.

From Selgin's perspective, "Local currencies are a niche product. In the presence of well-functioning national currencies they really can only perform a very small role and, frankly, not an important one. And it's not a role that's altogether obviously beneficial." He takes issue with the idea of a currency deliberately designed for use only in a particular area. "Currency that is just useful locally is a currency that constrains its holder, and the constraints are not generally a good thing."

But even Selgin agrees that under certain economic conditions local currencies can be helpful. According to Selgin, that tends to occur when there is a serious shortage of a national currency. "I don't think that situation prevails today," he says, "although it prevailed briefly after the '07 crash."

[2]Selgin isn't alone in his doubts about local currencies. Conservative

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business owners and consumers often choose not to use them when they're made available in their communities in part because local currencies are seen as left-wing.

"They'll say that's the hippie money," says Steve Burke, president of the Ithaca Hours board of directors. He attributes the Hour's early growth to the large left-leaning community in Ithaca: "When it started it was very much among the politically progressive community."

That sustained the currency in its first years, but Burke is clear that it won't help Hours—or any other local currency—grow in the future. Regional forms of money are never going to expand and become alternatives to the dollar as long as most Americans perceive them as part of a fringe movement. For local currencies to succeed, conservatives and political moderates will have to start using them as well.

And perhaps, with the rise of the Tea Party and the Ron Paul movement, they will. Both are powerful voices on the right today and are very wary of the Federal Reserve. If these groups adopt local currencies as a tool that could potentially transfer control of the money supply away from the Fed, the next phase of the regional-money movement could very well prove to be revolutionary.

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