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Debates and Reviews

Edited by M. W. DANSON

Over the next two issues in this section, articles by Michael Pacione and by Paul Westhead and Mike Wright address a similar theme: the significance and development of the economy at the smaller end of the capital market. Relating to the articles on community economic development in the last issues of *Debates and Reviews*, the contribution from Pacione looks at how the processes of globalization can have a differential impact within advanced capitalist economies, but an especially traumatic effect on marginal economies and communities. Following some of the themes in the Eisenschitz and Gough article in *Regional Studies* **32**(8), the relationships between the local and the global are investigated with links made into the debates on the nature of money (see Dow and Rodriguez-Fuentes, *Regional Studies* **31**(9) for a discussion). An argument is then made that local currencies can facilitate a greater degree of local autonomy and can promote the re-localization of social and economic relations. This promises, therefore, potentially to be an important contribution to the debate on the single currency.

THE OTHER SIDE OF THE COIN: LOCAL CURRENCY AS A RESPONSE TO THE GLOBALIZATION OF CAPITAL

Money is the essential lubricant for the processes of globalization that have reconfigured social, economic and political structures over the last quarter of a century. The development of new forms of money and the growth of an international financial system, following the collapse of the Bretton Woods agreement, has triggered the restructuring of national and local economies (WALLACE, 1990; DICKEN, 1992; SASSEN, 1994; DANIELS and LEVER, 1996), the re-positioning of nation states in the global political economy (OHMAE, 1990; OVERBEEK, 1990; ROSENAU and CZEMPEL, 1992, CERNY, 1993), and re-examination of individual lifestyles within the global world of late capitalism (FEATHERSTONE, 1990; BUDD and WHIMSTER, 1992; BIRD *et al.*, 1993; CARTER *et al.*, 1993).

Research into the economic, political and socio-cultural ramifications of globalization has produced a voluminous literature (ROBERTSON, 1992; WATERS, 1995; ALBROW, 1996). Particular attention has been focused on the expansionary dynamic inherent in globalization, with the concept of a shrinking world (ALLEN and HAMNETT, 1995) due to time–space compression central to most interpretations. Less consideration has been given to the reflexive nature of globalization (BECK *et al.*, 1994) and to the dialectic relationship between the global and the local. This is applicable particularly to the geography of money and finance where most research has been directed towards developing an understanding of the dynamics of the international financial system (COOPER, 1987; DE GRAUWE, 1989; CORBRIDGE *et al.*, 1994; LEYSHON and THRIFT, 1997). With the notable exception of recent work on financial exclusion (LEYSHON and THRIFT, 1994, 1995) relatively little attention has been afforded to the role of money at the local–regional level.

This article seeks to redress the imbalance by focusing on the potential of money as a mechanism for the relocalization of economic and social relations within global society. The basic contention is that, despite the hypermobility of money in the international financial system, the creation of a local currency can facilitate the development of a degree of local autonomy within the framework of a global economy. It is argued that, just as the creation of new forms of money is central to the workings of the international financial system, so new forms of local currency have the power to advance the relocalization of economic and social relations in advanced capitalist society.

The article is divided into four main sections. The first section examines the dialectic relationship between the global and the local in advanced capitalism. In the second section the goals and benefits of local currencies are identified. Section three explains the nature of money and the distinction between national and local currency before proceeding to an analysis of different forms of local currency. Finally, in the concluding section, the potential value of local currencies as a response to the globalization of capital is assessed.

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The global–local dialectic

The nature of the relationship between the global and the local is a key factor underlying socio-spatial variations in community well-being in the modern world. Uneven development, which is an inherent characteristic of the globalization of capitalism, stems from the propensity of capital to flow to locations which offer the greatest potential return. The differential use of space by capital in pursuit of profit creates a mosaic of inequality at all geographic scales from global to local. At any one time certain countries, regions, cities and localities will be in the throes of decline as a result of the retreat of capital investment while others will be experiencing the impact of capital flows. The effects of this form of 'casino capitalism' (STRANGE, 1986) on local economies and communities not viewed as profitable spaces by capital can be traumatic.

The extent to which local economies can resist the adverse effects of globalization is a matter of current debate. AGNEW and CORBRIDGE, 1995, contend that the power of globalization to transcend space and time can facilitate a decentralization and democratization of politics which is counter-hegemonic by linking like-minded groups throughout the world. In similar vein, the concept of globalization (LASH and URRY, 1994), seen as a 'double movement of globalization on the one hand and devolution, decentralization or localization on the other' (SWYNGEDOUW, 1992, p. 40), identifies a possible local response to globalization within the process itself.

For PECK and TICKELL, 1994, p. 298, however, the global–local conjuncture is an asymmetrical and highly uneven relationship 'comprised on the one hand of powerful processes of global disorder and on the other hand of largely reactive, and typically shallow, local responses'. Nevertheless, this perspective does not exclude the development of locally significant community-based responses to globalization. Dissatisfaction with their position within late capitalist society has encouraged many groups to propose alternative social and economic structures and lifestyles based on values opposed to the instrumental rationality of market capitalism which they regard as antithetical to local cultures (SCOTT, 1990; EGERMAN and JAMESON, 1991). Among the most striking examples are the Catholic base communities which have developed within Latin American cities, the Israeli kibbutzim, and the Amish and Old Mennonite communities of North America. Within the US, city local coalitions have formed in response to the dynamic of globalization. In Los Angeles, conflict between Latino residents and business-led redevelopment plans exposed the different values of Anglo and Latino urbanism (PINCETL, 1994) while, in New York City, residents in several low-income neighbourhoods have formed limited-equity co-operatives based on shared values of mutual action, assistance and decision making to tackle the material problems of life in their neighbourhood (CLARK, 1994). The development of Christian base communities in the context of advanced capitalist society is well illustrated in west Baltimore where Baptist, Presbyterian, black Muslim and non-religious base communities have arisen. For MCDOUGALL, 1993, p. 164, these represent 'physical and social locations in which people can develop the strength and capacity and definition necessary to challenge the dominant hierarchical matrix of the public and private bureaucracies with which they must contend'. In the UK, a large number of community-based initiatives have grown up in the last two decades as part of the 'third sector' or 'social economy' (WILLMOTT, 1989). These include community businesses (LAND USE AND URBAN ANALYSIS LTD (LAURA), 1990), credit unions (MCARTHUR *et al.*, 1993), local exchange trading systems (LANG, 1994) and community-based housing associations and co-operatives (DONNISON, 1989). As the preceding discussion indicates, there is now an accumulated body of evidence which supports the efficacy of such movements in furthering the values and goals of local communities. Notwithstanding the success of such grassroots action for socio-political change, as HARVEY, 1990, and others (COX and MAIR, 1988) have demonstrated, local forms of resistance to defend places and identities against global capital tend to be undermined by the hypermobility of capital and by the politics of place competition it engenders. The weight of evidence appears to indicate that, at the level of a local economy, while favoured growth regions might be able to exact some regulatory control from supra-local actors, the general effect of globalization is to reduce the power of local–regional states to promote progressive economic and social change (TICKELL and DICKEN, 1993).

The limitations imposed on local autonomy by globalization have been well documented. As ROBERTSON, 1989, p. 41, explains, 'local economies throughout the industrialized world have become largely dependent on outside employers to organise their work, on outside suppliers to organise their needs (for food, energy, clothing, shelter, entertainment and so forth), on outside banks, insurance companies and other financial institutions to meet their financial needs, and on outside social service agencies to provide for their health and welfare'. While this degree of dependence may have been of little consequence during the post-war boom years of sustained economic growth and full employment, in the competitive global market which has arisen since the mid-1970s dependence on the external creation of wealth has exacerbated the economic vulnerability of many cities and regions in the industrialized West and constrained their capacity to enact remedial strategies.

Shortage of capital lies at the heart of the dilemma and the fundamental question for local economies and communities on the margins of mainstream capitalist

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society is how this deficiency can be overcome. One means of increasing the supply of money available to lubricate local trade is to seek to earn more in the external economy (for example, via the traditional route of attracting a major employer into the area). This, however, does not prevent the money earned from flowing out of the locality. An alternative solution is to make 'internal' local transactions independent of the external national currency by establishing a special local currency. The creation of an independent currency system, operating alongside a national currency, would enable the locality to continue to function economically, even if at a reduced level, whatever happened to the money supply in the 'outside world'. Such a local currency could also act as a catalyst to enable local communities to gain greater control over social and economic developments in their locality. The potential benefits of a local currency are worthy of detailed examination, and this question is considered in the next section.

The goals of a local currency

While the proposal for a local currency marks a significant departure from the forms of money circulating in the international financial system, the concept is far from a novel one – in ancient Egypt, for example, barley was used as a medium of exchange for domestic transactions and silver for international trade (GALBRAITH, 1975). As JACOBS, 1984, p. 158, concluded, modern societies have been persuaded that the elimination of multitudinous currencies in favour of fewer national currencies represents economic progress and promotes the stability of economic life, but 'this conventional belief is still worth questioning'. The potency of this statement is strengthened by a number of developments in the global political economy including: the creation of new forms of money following the collapse of the Bretton Woods agreement; the increasing separation of the (productive) 'real economy' from the (speculative) 'money economy'; and, in particular, the growth of an international financial system comprising a 'space of flows' with limited attachment to place.

A local currency seeks to short-circuit the electron flow of 'megabyte money' (KURTZMAN, 1993) within the international financial system and to re-embed money in specific locales. In this context, ROBERTSON, 1989, envisaged a hierarchy of money with a world currency for use in international trade, national currencies for use in national trading, and local currencies for use in local trading, together with regional or continental currencies (such as the ECU). Within such a multi-level currency system, exchange between currencies would be regulated by a built-in dampening mechanism (such as an international currency tax on exchanges between national currencies, and comparable taxes at other levels). These taxes, by making it more costly to pay more for imported than locally-produced goods and services, would promote economic self-reliance. The concept of multi-level currencies is consistent with LEYSHON and THRIFT's, 1997, p. 189, view of money as 'constituted in a number of different networks of human practices, and used and thought of in different ways in these networks. [This] belies the idea of a single, centred model of money in favour of a series of differentiated, but overlapping models of monetary custom'. While this description appears to have been directed to forms of money flowing within the international financial system, it is not unreasonable to expand the principle to encompass the concept of local currencies.

A local currency has the potential to achieve several objectives. A principal argument in favour of local currencies is that, when localities are dependent entirely on national currency as a medium of exchange to facilitate local economic activity, any decline in local competitiveness within the national or international economy can result in a shortage of money in local circulation *even for internal economic purposes within the locality.* This leads to the situation experienced in many formerly flourishing industrial cities in Europe and North America where local unemployment rises and local assets remain underutilized while local needs remain unmet. Underlying this anomaly is the shortage of official currency circulating locally as a medium to facilitate local exchange. This shortfall in the money supply is a direct consequence of the short term, profit-maximization goals of capitalism and the international mobility of finance capital. It is promoted by the existence of a centralized banking system that operates to redistribute investment capital to high-profit, low-risk areas which, in general, means from poorer to richer areas, thereby accentuating regional socio-economic disparities. A local currency can stem the leakage of money out of the local economy. In addition, use of a local currency retains local control over investment decisions which is lost even when local capital is 're-imported' via distant financial institutions. A local currency also encourages individuals and businesses to support each other rather than buying from outside the community, and can help to meet the credit needs of small businesses thereby stimulating the local economy and diversifying its economic base. Another related advantage is that a local currency can generate local employment by overcoming the mismatch between the shortage of money and the excess of work required to be done in any local economy. In general, people will be prepared to work in return for a local currency in which they have confidence – that is, for a currency that can be used to pay for the material necessities of life. We shall return to this point later in the discussion.

A second principal advantage of a local currency lies in its ability to reduce dependency on transfer payments in the form of central government welfare benefits, economic grants and annual council spending budgets.

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Since the late 1970s, in the UK, transfer payments from central to local government have failed to maintain their real value as a result of growing demand and constraints on resources available. Furthermore, by inculcating a dependency culture, transfer payments do little to promote the development of local human capital. Rather than looking to a continued flow of transfer payments to maintain the local economy, dependent cities and regions should pursue development of 'import-replacing' goods and services. As indicated above, introduction of a local currency could play a central role in promoting such developments by retaining spending power within the locality and fostering the growth of indigenous enterprise. A related advantage is that a local currency allowed to float against the national currency could operate as an indicator of the health of the local economy. As JACOBS, 1984, p. 162, argues, a centralized monetary system cannot provide the amount of credit required for each of the disparate local economies that make up a national economy. By contrast, a local currency, which reflects the productive capacity of each city region, would provide a more sensitive feedback mechanism. Under these conditions 'with falling exports a city needs a declining currency working like an automatic tariff and an automatic export subsidy – but only for as long as they are necessary. Once its exports are doing well, it needs a rising currency to earn the maximum variety and quantity of imports it can'.

A final advantage of a local currency is that, in certain forms, it can facilitate a non-inflationary monetary system. Inflation is a major problem of centrally-issued currency whereby the operation of the market mechanism can devalue the currency through oversupply. Under such conditions the sellers of goods and services seek to protect their income by raising prices. Lenders increase their interest rates thereby raising the cost of credit which can have an adverse effect on business survival or development. As we shall see below, some forms of local currency eschew the use of interest, while others employ the concept of negative interest to maintain the money supply.

The nature of money

Before discussing the main forms of local currency it is necessary to first clarify the meaning of money in general. Definitions of money abound (ANGELL, 1930; GALBRAITH, 1975; DODD, 1994). Material definitions focus on what money is and identify the changing nature of money over the centuries from money as a thing such as gold, coinage or paper currency to money as a system created by the computer and telecommunications revolution of recent decades and the freeing of exchange rates (following the departure of the USA from the gold standard in 1971). Functional definitions of money focus on what money does, on its role as a medium of exchange, standard of value, unit of account and store of value.

Further light is shed on the nature of money, however, by understanding how it is created. For SODDY, 1935, money is the *nothing* you get for *something* before you can get *anything*. This aphorism encapsulates the ethereal nature of money. As REIGEL, 1978, p. 15, explains:

> ... money simply does not exist until it has been accepted in exchange. Hence two factors are necessary for money creation: a buyer, who issues it, and a seller, who accepts it. Since the seller expects, in turn, to reissue the money to some seller it will be seen that money springs from mutual interest and cooperative action among traders, and not from authority. That the government can issue money for the people ... is an utter fallacy. Money can be issued only by a buyer for himself, and he must in turn be a competitive seller to recapture it and thus complete the cycle.

The fundamental defining characteristic of money of all types is user confidence in its redeemability for goods and services. Money is a symbol with no intrinsic value; it maintains its value by trading on what people think of it and on how much confidence they have in the institutions backing it. Significantly for the present discussion, there are in practice no financial or legal barriers to the creation of local money. There are, however, several important differences between local and national currency. The first of these is that while national currency is accepted internationally, local currency can only be used within a restricted area. This geographical constraint should be viewed in a *positive* light, however, since within a local trading system any spending power input by an individual is likely to return to him/her in the form of increased demand for their services. A second key difference is that national money is relatively scarce because its supply is restricted deliberately for fear of inflation whereas the supply of a local currency related directly to trade activity is always adequate for its purpose. Thirdly, the external control exerted over the supply of national currency provides the issuing agents with power over those in need of money, whether individuals or local governments. A local currency based on the abundance principle rather than a model of scarcity cannot be an instrument of domination.

Forms of local currency

A review of the historical and contemporary literature reveals the existence of a large number of local currency systems. For analytical purposes these may be grouped into two major categories of private and public schemes.

Privately issued local currency. Modern attempts by individuals or private agencies to set up systems to enable

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exchange to take place without the use of official currency date from the seventeenth century when a Quaker, John Bellers, proposed that unemployed workers be paid in a 'local currency' of labour notes for goods which they produced with materials supplied by the system's central office. The office was to recover its notes by selling the goods either to the workers or to others who had accepted notes from the workers (for example, in payment for food or rent). A similar scheme was introduced by the philanthropist Robert Owen who opened his National Equitable Labour Exchange in London in 1832, and by the French socialist Pierre-Joseph Proudhon who established a People's Bank in Paris in 1849. However, none of these schemes survived for more than a few years.

Given that one of the chief goals of a local currency is to offset a shortage of national currency, it is unsurprising that a large number of 'local money' initiatives arose during the years of the Great Depression. Typical of these was the Larkin Merchandise Bond issued in 1933 by Larkin and Company of Buffalo, New York. The bonds were used to pay employees of the company and were accepted in any Larkin retail outlet in the USA, as well as by many other businesses. While the bonds were in circulation the original $36,000 issue was turned over sufficiently to facilitate the sale of $250,000 worth of merchandise. This and other scrip issues gradually declined towards the end of the Depression as official currency became more readily available. However, this does not diminish the proven success of local money in stimulating a local economy (FISHER, 1933).

The practical benefits of a local currency were also demonstrated in 1931 in the Bavarian village of Schwanenkirchen when the new owner of a defunct coal mine re-opened it by paying the miners in local currency (wara) which he had arranged could be spent in village shops. The local currency eventually found its way back to the mine owner through the purchase of coal. The significance of this system is that if reichsmarks had been used instead of wara the enterprise would not have been possible since the national currency would either have been hoarded for use at a future time or would have been dispersed throughout the country with a correspondingly limited impact on the local economy. Fears of an inflationary spiral due to the success of the local currency led the German Government to proscribe the use of wara. Consequently, the coal mine in Schwanenkirchen closed and the miners returned to unemployment and the local economy to stagnation.

In recent years privately-issued local currencies have been employed in several US communities in order to support local businesses and retain purchasing power in the local economy. Since 1989, several firms in the town of Great Barrington, Massachusetts have issued a discount scrip form of local currency as a means of raising capital which was unavailable from formal banking sources. A simple example serves to illustrate the principal. When refused a bank loan of $4,500 to finance a move to new premises, the owner of a popular delicatessen printed his own currency (deli dollars) and sold them to customers in order to raise the capital he needed to stay in business. He sold a 10 deli dollar note for US$9 redeemable at his new business for US$10 worth of sandwiches. The owner generated sufficient funds from the sale of 500 notes to finance the relocation, the debt to be repaid in sandwiches rather than federal dollars. In addition to the advantage accruing to the business, individual participants in the scheme obtain a discount on future purchases (provided the business stays afloat and implements the redemption programme), and the psychological satisfaction from helping a local firm. The community at large benefits from the retention of spending power in the locality and reinforcement of community solidarity. Clearly this principle can be extended. Similar forms of local currency (for example, related to food producers), could be distributed by voluntary groups to needy families enabling them to purchase foodstuffs free from the stigmatization attached to formal welfare programmes.

The major problem of discount scrip is that its success depends on the business enjoying the trust and confidence of its customers. It is not, therefore, normally applicable to start-up ventures. The issue of participant confidence may also affect the transferability of such schemes. While small town communities may be willing to support the local economy in this way, people in larger-scale urban areas with less ties to local retail outlets and wider opportunities for purchase may have less incentive to buy locally. SOLOMON, 1996, however, views the use of such local currency initiatives as not simply a technique to attract customers to a business but as a means of educating consumers about the importance of local purchasing for the strength of the local economy.

The most successful community-wide local currency system in the USA is the Ithaca hours scheme based in the town of Ithaca in New York State. The local currency, the Ithaca hour, has a fixed exchange value with national currency of $10 (the average hourly value of wages and salaries in the area). By the end of 1995, 250 businesses accepted Ithaca hours with some even giving change in federal currency. The smooth operation of the scheme is ensured by the close involvement of the system organizers who actively recruit useful goods and services to expand the range available and liaise with participants to ensure they have satisfactory outlets for accumulated hours. A key role is played by the originator of the scheme who is employed to oversee operations, a task which includes producing a regular newspaper advertising the goods and services available within the system and organizing twice-monthly open meetings of participants to review the operation. The main structural weakness of the Ithaca

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scheme is the absence of a mechanism to prevent inflation in the event of a surplus of hours in circulation (which might arise if growth in the formal economy increased the availability of national currency). In practice, decisions on how much local currency to put into circulation are made at regular meetings open to all participants in the scheme. The view of the organizers is that the threat of inflation is minimal since the amount of money provided by the formal economy will never be sufficient to meet the needs of all members of the community, meaning that a local currency will always be in demand. The success of the Ithaca hours system has stimulated its reproduction in over 20 other places in the USA (DOUTHWAITE, 1996).

A different form of privately-issued local currency is the service credits or time dollars scheme designed specifically for the provision of community care services (rather than for the more general revitalization of a local economy). Time dollars are earned by providing care services at the rate of one time dollar per hour, and can only be spent in buying care for oneself or for friends and relatives. The largest operating time dollar system is in Miami but by 1994 there were over 150 schemes operating in 30 US states. The time dollar has no monetary equivalent but is a form of money which enables people to undertake work they would be unlikely to do for a cash payment. (For example, a retired financial consultant might not cut a sick person's lawn for money but would do it for time dollars.) Unlike national currency the supply of time dollars is not limited by an external agency, being dependent only on the willingness of local people to help each other. In essence, time dollars represent a stimulus to the moral economy that some commentators believe to have been marginalized by the processes of globalization (CAHN and ROWE, 1992).

In the UK the development and growth of local currencies has been related directly to the rapid expansion of local exchange trading systems (LETS) since the idea was introduced from Canada in 1984 (LINTON, 1986). The principal economic objective of a LETS is to facilitate 'import substitution' in its locality in order to promote a local economy that is less reliant on external sources of goods, services and money. In a LETS, money is a purely local currency which cannot be traded outwith the system. It is not commodified as in the formal economy and its value is based on reciprocal trust among members. Additional 'money' is created not by a central bank but by the users (via demand for goods and services) without affecting the value of the currency (as there is no inflation, since the money supply is related directly to trading activity). Since no interest is charged on 'debts' or paid on 'credit' balances, nonproductive finance capital is absent from the LETS system. Neither is profit accumulation an important objective since trade can be engaged in by those in deficit. In essence, and in marked contrast to the formal monetary economy, LETS currency is employed primarily for its use value (as a medium of exchange) not for its exchange value (as a commodity). As SEYFANG, 1994, p. 20, states. 'LETS currency is not capitalist money'. For DAUNCEY, 1988, p. 51, LETS currency represents 'a new kind of money . . . which is immune from international recession, debt charges, supply problems, theft, scarcity and currency fluctuations'. There are now over 400 functioning LETS in the UK and, for several observers, the potential of the concept as a source of credit for disadvantaged communities and a mechanism for reducing leakage of resources from a local economy demands further investigation (THORNE, 1996; WILLIAMS, 1996; PACIONE, 1997).

Publicly issued local currency. A key factor underlying the soundness and acceptability of a local currency is confidence in its redeemability which implies confidence in the power, productive capacity and honesty of the issuing body. While such levels of confidence can be generated by private companies (such as Larkin and Company in the USA and Herr Hebecker's mining company in Schwanenkirchen, Germany), currency issued by a public authority, such as a municipal government, is also likely to attract a high level of credibility particularly if it can be used to pay fees and taxes, and if it is accepted at par with official money.

As we have seen, the original intention of 'Depression scrip' was to provide a temporary supplement to a scarce supply of official currency. However, the permanent use of a local currency can offer the advantage of insulating a local economy, at least partially, from the vagaries and distorting effects of the international financial system. The idea of a local currency alternative to official currency was first proposed by GESELL, 1958, who also introduced the concept of 'negative interest' designed to increase the supply of money which could function as a medium of exchange rather than as merely a store of value. Gesell's ideas were put into practice in 1932 in the Austrian town of Worgl in response to serious local tax arrears due to high levels of unemployment. The local currency was used to pay half the wages of council staff and, because business people knew it could be used to pay taxes, it was accepted in return for goods. In fact, local traders took no risk in accepting Worgl scrip since it was backed by a national currency loan left on deposit in the local savings bank. This allowed any scrip holder to exchange it at any time for 98% of its face value in national currency. In order to prevent hoarding, the local currency was imbued with a built-in depreciation factor or negative interest rate. A stamp costing 1% of the face value of each note had to be purchased each month in order to revalidate it for use during the following month, meaning that holders were encouraged to spend rather than save the local currency. Any local money returned to the bank or paid to the council

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was immediately put back into circulation in the town. The impact of the auxiliary money on the local economy was striking. In the first month 4,542 schillings of tax arrears were paid allowing a new public works programme to begin that employed 50 people whose wages were paid wholly in local currency. When other towns expressed interest in issuing a local currency, the Austrian Central Bank, fearing it would lose control over the money supply and hence inflation, took legal proceedings against the Worgl council and halted the scheme. Nevertheless the advantages of the local currency were apparent and during the early 1930s more than 300 communities in the USA introduced similar forms of scrip. FISHER, 1933, describes a type of scrip proposed for the city of Reading, Pennsylvania, in which the note had 52 squares on the reverse, each printed with the date of consecutive Wednesdays in the year after its issue. Before the note could be used, the holder had to affix a special 2 cent stamp in the appropriate square. At the end of the year the sum of $1·04 would be built up allowing the note to be redeemed at par, with 4 cents to cover expenses. In March 1933, however, President Roosevelt banned further scrip issues on the grounds that the US monetary system was moving out of the control of the national government.

The inherent benefits of a publicly issued local currency continue to commend the concept to communities experiencing a shortage of conventional money. In 1985 the Argentinian province of Salta introduced its own unstamped scrip. Public employees and creditors were offered the choice of payment in local currency immediately or in national currency later. Since inflation was rising rapidly, many accepted the new notes (secure in the knowledge that banks would exchange them at par for national currency if necessary). However, to encourage people to circulate the notes rather than exchange them, the local government accepted the currency in payment of taxes, and organized a lottery offering prizes to the holders of notes bearing winning numbers. Shops and businesses rapidly accepted the new money, and the scheme was reproduced by several neighbouring provinces (GRECO, 1994).

For local governments with an insufficient supply of national currency, the problems are compounded by the high cost of credit obtained from conventional banks. The islands of Guernsey and Jersey have overcome this by issuing their own local currency. The Guernsey system is indicative. The modern currency system originated in the economically-depressed era following the Napoleonic Wars as a means of financing necessary repairs to sea defences. Since interest payments on the public debt absorbed 80% of annual taxation income, the island government issued 'state's notes' to circulate in parallel with official currency (£sterling). This provided an interest-free loan to finance the capital works programme. Today, the island government provides local banks with state's notes in exchange for a similar sterling amount which is lodged in a deposit account in the state's name. The island government receives interest-free credit plus interest accruing to the sum on deposit in the bank which is used to fund public works. The local currency is secure since each note is backed one-to-one by its British equivalent (GRUBIAK and GRUBIAK, 1960).

The benefits of a local currency to cash-strapped local councils appear unequivocal. A local currency reduces dependence on central government grants and expensive bank borrowings, funds necessary public projects and boosts the local economy. National government would also benefit from increased tax revenues and lower social security expenditure. As proponents of local currencies in Worgl and in the USA have found, however, a chief obstacle to implementation of local currency schemes remains central government resistance to the loss of control over the money supply. The force of this argument may be overstated, however. The amount of local currency in circulation would be minuscule compared to the national money supply and of almost no significance in relation to the volume of monetary transactions undertaken daily in the international financial system. By contrast, as the examples above have indicated, the impact of local currency on the health of local economies and communities can be significant.

Discussion and conclusion

What, then, is the potential for local currencies as a response to the globalization of capital? This question is posited on the assumption that local economies and communities should be protected, if possible, from the adverse consequences of globalization. Clearly, this assumption must be interrogated before we examine the potential value of local currencies.

We can approach the issue of local economic protection from the opposite direction by considering the bases for 'free trade'. The justification for the doctrine of free trade based on comparative advantage was proposed by David Ricardo and Adam Smith in the eighteenth century supported by the now classic exemplar of trade in wine and cloth between England and Portugal (RICARDO, 1951). Significantly, the key mechanism which allows comparative advantage to operate is the *immobility of capital* between countries. In the England–Portugal example, if capital moved freely across national boundaries, English capital would flow to Portugal (attracted by lower labour costs) and both wine and cloth would be produced there putting English cloth-makers out of business. This is precisely the situation that obtains in the modern world where national boundaries no longer constrain the international flow of capital, where investment decisions are governed by absolute profitability, and unemployment rises in countries deprived of productive investment.

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The same principle applies at the intranational level where a centralized financial system operates to direct capital to profitable investment opportunities. The other side of the coin is that capital is also extracted from localities perceived as less profitable spaces by investment managers – places which are generally those in greatest need of enhanced local investment. As DALY and COBB, 1990, p. 215, conclude, the modern capitalist has:

> ... escaped from community into the gap between communities where individualism has a free reign. They have no natural disinclination to move their capital abroad with the speed of light at the stimulus of a tenth of a percent difference in rate of return. If Smith or Ricardo were alive today we suspect that they would not be preaching free trade.

The internationalization of finance, and in particular the effects of fluctuations in the value of national currency, are felt differentially within different sectors of the national economy, and in different localities within the country. The example of the English pottery industry is instructive (JACOBS, 1984). In 1979–80, when the value of sterling rose by 10%, the major producers (located in the English Midlands) were forced to lay off workers because the 'strong pound' had priced their goods out of foreign markets. Simultaneously, the rising pound also priced English pottery out of home markets as foreign imports became relatively cheaper. The principal causes of the economic contraction in the Midlands pottery industry (due to the strong pound) were production revenues from North Sea oil which improved the national balance of trade, and a government policy of setting high interest rates to attract foreign capital investment. This monetarist approach to national economic growth was geographically-insensitive and ignored differing *local* economic realities. For JACOBS 1984, p. 163, local currencies avoid such problems by serving as 'elegant feedback controls because they trigger specifically appropriate connections to specific responding mechanisms'.

The principle of free trade based on comparative advantage was predicated not only on the free exchange of goods but on national limits on the movement of capital. Since the latter condition is no longer tenable in the modern global economy, the hypothesized benefits of free trade, and the consequences for particular places and communities, need to be re-considered. This is supported by developments at the international scale including, for example, the creation of the post-war trans-state regulatory framework of the Bretton Woods agreement as well as subsequent attempts by the major economic powers to establish a post-Bretton Woods regulatory mechanism (ROBERTS, 1995). By contrast, at the national level, successive UK governments since 1979 have downgraded regional policy and afforded limited consideration to the impacts of national economic policy and the processes of globalization on local economies. Local currencies represent a possible response to such socio-spatial insensitivity. While the central state is unlikely to promote this approach, the potential of a local currency issued by a local authority as an auxiliary form of money is, nevertheless, worthy of consideration.

As we have seen, the growth of local currency systems is related to the health of the local economy. In times of shortage of official currency, an alternative form of money represents a means of maintaining exchange relationships and preventing the collapse of a local economy by ensuring that a greater proportion of local income and savings circulate within the locality to generate local work, investment and local economic development. More generally, a local currency can promote the goals of subsidiarity and local autonomy by reducing dependency on a medium of exchange which must be imported from outside the region, whether in the form of central government disbursements or commercial bank loans. The value of a local currency is enhanced if it is accepted by local authorities in payment for rent, taxes and other services. Popular confidence in the currency may also be heightened if it is redeemable at par with national currency. However, in order to promote its use as a local medium of exchange, some form of discounting mechanism or negative interest rate may be appropriate. Use of a local currency could be complemented by other strategies designed to encourage satisfaction of local needs by local work using local resources including, for example, local purchasing and spending policies. One objection to the increased local autonomy stemming from use of a local form of money is the possibility that local authorities will abuse the power to issue currency and seek to spend their way out of financial crises. In the case of a currency backed by a national currency, however, over-issue would cause the local currency to decline in value relative to the national currency. This would result in a loss of revenue for the local authority obliged to redeem their currency at par. In the Salta province of Argentina, during 1987 local currency was being traded at a 20% discount against national currency but this was rectified by a temporary suspension in the issue of further local notes.

In practice, no local economy can isolate itself from the national and international economic system. But it is equally myopic for political and economic decision makers to ignore the adverse effects of the global economy on local places experiencing a net outflow of capital investment. A local currency cannot insulate the local economy from the negative effects of globalization but it can afford a degree of protection against the spatially-insensitive currents of the international financial system. A combination of alternative financial institutions such as credit unions and local exchange trading systems, and a publicly-issued local currency has the potential to re-invigorate localities. As we have seen, in some instances the introduction of a local

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currency has the capacity to stimulate the social and economic regeneration of a community. The success of schemes such as that introduced in Worgl and, more recently, in Ithaca suggests that the potential use of a local currency as a response to the globalization of capital is, at minimum, worthy of further consideration – not least in those localities which currently are marginal to the mainstream of advanced capitalist society.

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