

REGIONAL CURRENCY AS AN INSTRUMENT TO GENERATE NEW POSSIBILITIES FOR STARVING VALLEYS

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Abstract

Significant determinant of economic sustainability and competitiveness of a state is its regional disparities. The more equally productive state's regions are, the more stable and economically sustainable the state is. The objective of this article is to argue why the use of supplementary interest-free currency (implemented on a regional or state level) presents an efficient tool of the state to boost economic activity in regions facing extreme poverty.

Key words: *interest-free currency, supplementary currency, Silvio Gesell, theory of regional clusters*

Regions facing extreme poverty also known as *starving valleys* find themselves trapped in a vicious circle of despair. Many times the only change possible in the future of these regions is even greater decay. Optimism and innovative thought seem to have left these places. Each state is composed of smaller regional units which, nevertheless, all create its territory. According to a principle that each action causes reaction, economically inactive regions have enormous impact on economically productive regions as well as vice-versa. Many examples demonstrate that a state cannot be economically prosperous if only one of its regions is competitive and profit-producing which ensures that other regions are able to exist and survive. A state of great regional disparities can survive on the international scene only until its productive region is capable of supporting the rest. However, from a state's long-term perspective such setup is unacceptable.

Regional politics has existed in Europe for more than fifty years. At the beginning of 1930s disparities kept on deepening. The Great Depression was in its last stage. Deepening of inter-regional differences and seeking aid from the Centre, which governed the state, presented a real threat to the state itself. Economic crisis had had the same socio-political impacts as at present. In the second half of 1950s due to increasing disparities, regional politics became part of a political agenda and was included in national politics of a state. Central Government no longer had the capacity to solve systemic problems in all regions. The only option was to undergo

decentralization and transfer the exercise of power from state level to regional level, which was in Western Europe implemented in the beginning of 1980s. For many countries of Central and Eastern Europe this meant 20 years of lagging behind Western Europe. State had, therefore, become only the indicator of general direction. Regions, however, became governed from below and their incompetence and inability to develop and thrive was left to be their sole responsibility and not the state's. The emphasis has been, therefore, recently placed on endogenous potential of regions, which is supposed to be embraced and utilized by regional self-governments. Decentralization is surely advantageous for a state; however, regional disparities and inequalities remain a problem.

Development or economic growth does not only generate positive outcomes for firms and factories but it also has an actual positive impact on living conditions of people living in these regions. Therefore, development causes further heterogenic development. It also becomes the source of imbalance. Development only influences the villages or regions which contributed to the development. The rest of the regions lacking initiative remain unaffected. Therefore, current tendencies lead towards imbalance. The system is decentralized and the emphasis is put on innovative and technological development which lies in hands of educated people. Current system is based on the level and sophistication of the human factor.

States which do not react well and fast enough on the emergence of knowledge-based economy face the possibility of regression. The key responsibility of any government is thus to perform endogenous and exogenous analysis of the environment. According to this information, the government should then formulate strategic priority programmes for education, production etcetera, as well as create the necessary conditions for its implementation. Another necessity would be that the selected national priority could not be cancelled after next elections, which seems to be common practice in many Central and Eastern European states.

THEORY OF REGIONAL CLUSTERS AND THE USE OF COMPLEMENTARY (REGIONAL) INTEREST-FREE CURRENCY

Theory of regional clusters offers another instrument for effective administration of economy. A cluster represents a group of interconnected firms and production actors. In terms of manufacturing this kind of production is more effective if it is concentrated in narrowly determined territory in order to achieve external savings mostly in transportation and logistics. Savings can then be used for further investment and development of the company or specific sector. Main advantages of clusters are the acquired savings and decrease in spending but also increase in specialization and most of all in specialization of SMEs (Small and Medium Enterprises). Other advantages are: increase in competitiveness of the cluster externally, connection and similar specialization of companies in order to achieve better collaboration, transfer of innovation, and speeding up of restructuralization. Clusters are formed by various actors such as SMEs, firms, companies, education facilities, research centres, local representatives and representatives of the autonomous regions. Great advantage of clusters is that they are not only utilizable

in new types of industries but also in traditional industry sectors such as textile industry or wood industry.¹

Approximately 38%, somewhere up to 50% of the European employees work in firms that are part of a cluster. Most clusters operate in countries in which science and research is included in governmental priority programmes. Using Slovakia as an example, if Slovakia wished to utilize its potential in automobile industry or machine industry, it would have to learn to widely include its citizens and create appropriate conditions in order for them to become active not only in construction or manufacturing of parts but also in innovation and research within the industry. Slovakia would have to be willing to invest substantially more in purchase of licences and development of innovation and research centres which are the sources of innovation providing output with high added value. Gradual interconnecting of educational institutions and firms is the basis of success in developed economies. The success is even greater if a state focuses its industry more on manufacturing than on services. Production is the engine of sustainable economy.

Not only in the European Union but also in Europe as a continent one can find regions which are truly unique in terms of their economic reality. However, as mentioned before, this reality is often extremely unfortunate. The primary objective of any governing body in these regions is to boost local economy. Just like there are regions with less or no productivity in every state, the EU itself is divided into regions (in this case - states) which are less productive and struggling in red numbers. These regions, in whichever scale, are characterized by more than 25% unemployment rate. In the vicinity of these regions arose the so called *starving valleys* (regions facing extreme poverty). Current instruments to battle poverty and long-term unemployment are in these regions completely ineffective. The state (or higher community such as the EU) will be able to economically function only until its productive regions are able to keep supporting the rest. Such direction is, however, unacceptable and unsustainable in the long-term perspective.

One of the possible instruments for economic recovery in villages or whole regions is the local use of a supplementary interest-free currency. Money is the turbine of economy. The faster the turbines rotate and money circulates in the system, the more economic energy is produced. Interest-free currency would represent implementation of a New Economy parallel to the existing one, which would be based on a currency that would due to a *parking fee* circulate many times faster. Income in interest-free currency could be not subjected to taxation since it would be sufficient enough for the state to choose the correct amount for the parking fee. Interest-free currency is the best stimulus to economic activity because it motivates to be economically active also students, household wives or pensioners. Current economic system is based on capital and interest. At one time, one can borrow EUR 10,000 for a 3% interest rate, at a later time for a 15% interest rate. *These differences create space for speculation.* Economies in the world are strongly interconnected so that financial crisis in the United States of America and in Greece has a direct impact on Slovakia or Iceland. Small states such as Slovakia or Moldova, until today strongly dependent on

¹ SWORDS, Jon, Michael Porter's Cluster Theory as a local and regional development tool – the rise and fall of cluster policy in the UK. *Local Economy*, 28 (4)., 2013, pg. 367-381. ISSN 0269-0942, available at: <http://nrl.northumbria.ac.uk/11207/> (accessed on 8. March, 2014)

exogenous developments, do not have the instruments to withstand similar fluctuations and crisis.

Partial solution can be found in the implementation of new economy based on local interest-free currency which would exist parallel to the Euro currency. The inventor of the concept of interest-free currency is Silvio Gesell (1862-1930) who elaborated on the concept in his work *Natural Economic Order*.¹ The main difference between the interest-free currency and for example the Euro is the following principle: If today one borrows money, one pays interest for its use to those, who have money and lent them. In Gesell's free economy, the principle would be reversed. Those who keep money from circulating in the system will have to pay a *parking fee* for holding them. Unlike that the parking fee will become a personal profit, in Gesell's new economy, the profit will belong to the state. Thanks to the income from a well set parking fee, for example, the overall tax burden could be reduced.

WÄRE'S EXPERIMENT

J.M. Keynes commented on Gesell's theory that it is equally revolutionary to Marx's theory, but unlike Marx's, he does not see any theoretical problem why it should not work in practice. The economy of post-war Europe was destroyed in all European countries. In this period, there were first pioneers willing to try Gesell's theory out in practice. This article will introduce few of them which had been very successful. The first of them will be Wäre's experiment.² In 1929 in a village called Schwanenkirchen, Germany, was a coal mine which was going bankrupt. Dr. Hebecker, its proprietor, summoned the miners and announced them that he was forced to close the coal mine. However, he offered them to try an experiment of which he was not sure it would work. He explained to them that he could try to issue money (the Wäre currency) and pay with this money 90% of their salary. This currency was backed by coal which remained in the mines stock. Because the miners had nothing to lose, they agreed.

Dr. Hebecker made an agreement with local owners of grocery stores in the nearby vicinity that they will accept the Wäre currency which would ensure basic survival for the miners. Based on Gesell's theory, the banknote was valid one month. Each additional month, the banknote was valid only in the case when a stamp was applied, which was levied on paying a parking fee in the amount of 2% of the whole banknote for holding cash. Not only did the Wäre currency save the village and its miners, but soon it became accepted by more than 2,000 companies in Germany. In 1930 and 1931 more than 2.5 million people used the Wäre currency. In 1931 the village Schwanenkirchen paid all its debts. The Central Bank of Germany, however, feared losing its monopoly to issue money so it decided to forbid the Wäre currency in

¹ GESELL, Silvio, *The Natural Economic Order*, available at: <https://www.community-exchange.org/docs/Gesell/en/neo/> (accessed on 3. March, 2014)

² ONKEN, W. *Ein vergessenes Kapitel der Wirtschaftsgeschichte, Schwanenkirchen, Worgl und andere Freigeldexperimente*, available at: http://www.geschichtsverein-deggendorf.de/docs/gbl_04/gbl_04_99_116_122_wirtschaftsgeschichte_onken.pdf (accessed on 3. March, 2014)

October 1931. Subsequently, Schwanenkirchen went bankrupt and all its workers along with Dr. Hebecker lost their jobs.

WÖRGL EXPERIMENT

The experiment in Wörgl is another similar example. In 1932 during the Great Depression, Michael Unterguggenberger was elected the mayor of a small Austrian village called Wörgl with only 4,500 citizens. More than 500 people in the village and 1,000 in the vicinity were unemployed. Around 200 families had absolutely no savings or income. Mayor Unterguggenberger prepared a list of projects for the village such as a new street paving, water distribution system, tree planting and more. However, the village only had 40,000 shillings which was not enough even for one project. *“The Mayor was familiar with Gesell’s theory and was willing to try it out. He decided to put the money on deposit with a local savings bank as a guarantee for issuing Wörgl’s own 40,000 schilling’s worth of stamp scrip. He then used the stamp scrip to pay for his first project. Because a stamp needed to be applied each month (at 1% of face value), everybody who was paid with the stamp scrip made sure he or she was spending it quickly, automatically providing work for others. When people had run out of ideas of what to spend their stamp scrip on, they even decided to pay their taxes, early.”*¹ (Lietaer, 2010)

The citizens of Wörgl quickly accepted the currency and soon there were only two places where one could not pay with it – the railway station and the post office. During the next year a new water distribution system was built, Wörgl citizens repaired roads and sidewalks; a bridge was built, new houses, and even a ski jump. Unemployment in the village and its vicinity vanished. Mayor Unterguggenberger met with more than 170 representatives of nearby villages telling them of their success. Soon many of them became inspired. Even the French President Daladier came to witness the miracle first hand. However, as in the previous case, in 1933 the Central Bank of Austria panicked and decided to immediately assert its monopoly rights. To issue the so called “emergency currency” was soon a criminal offence. The people were in despair and sued the Central Bank but lost twice even in the Supreme Court of Austria. It is important to point out that the currency’s principle was that it was not the projects of the Mayor which created jobs but that the currency itself naturally generated jobs and created 14 times more employment than the shillings.

HUREAI KIPPU

There are many more supplementary currencies based on Gesell’s theory of New Economy which exist in parallel to normal traditional economy. One of them is the Japanese currency of social care. Its currency unit is time. Japan is a country with increasing number of elder pensioners who are healthy but no longer productive. These people are not able to carry groceries or do a thorough cleaning of their house.

¹ LIETAER, B., The Wörgl Experiment: Austria (1932-1933), March 27, 2010, available at: <http://www.lietaer.com/2010/03/the-worgl-experiment/> (accessed on 4. March, 2014)

It would seem like there is no other way but to provide social care. However, in Japan, there is another way.

This time-based currency is in Japan called *hureai kippu* translated as the *Caring Relationship Ticket Scheme*.¹ The following example will demonstrate its principle. Let's imagine a student from Yokohama studying in Tokyo. In his free time, he helps to shop for groceries or does a little housecleaning for an elder pensioner in Tokyo. That way he earns credit within a system, let's say 20 hours per week. Our student's grandfather lives in Yokohama. Because his grandson lives in Tokyo, there is no one to help him. Nevertheless, thanks to the earned credit by his grandson in Tokyo a different student from Osaka who studies in Yokohama helps his grandfather. So works the principle of Caring Relationship Ticket Scheme – *hureai kippu*. This system is also applied when 60 or 70 year old Japanese citizens take care of 80 or 90 year old pensioners. They keep earning credit for years in advance so that they can use the hours later for themselves. This system first started as a private initiative, but today it widely enjoys the support of Japanese government because it saves great amount of financial means from the state's budget.

CURITIBA MASTER PLAN

The last example of a successful supplementary currency was implemented in 1971 in a Brazilian city Curitiba when Jaime Lerner was elected its mayor.² This city's population has grown in 40 years from 120,000 to one million citizens. Most of them lived in *favelas* – suburbs with dwellings made of paperboard or corrugate sheets. Due to ever increasing piles of garbage and waste, infectious diseases and rodents spread through the city. The mayor then came up with a master plan which was based on the invention of a *free return bus ticket*. The mayor ordered to extend the bus line to the edge of favelas and big containers for separated waste were installed at the bus stops. Each favela resident received a colored bag for specific type of waste. Every citizen who brought back a full bag of waste was given a free return bus ticket to the city. Children who brought bags of waste received food and school supplies. Thanks to this supplementary currency, the children were provided with school supplies and many of their parents were given the opportunity to get to the city and find employment. In a short period of time favelas were cleaned of waste. Thousands of children played with colored bags and received bus tickets, notebooks, pencils or groceries in return. Jaime Lerner is the architect of many successful projects in Curitiba. The city's GDP has been increasing twice as much as the GDP of Brazil. Due to Lerner's innovative thinking, he was the governor of Brazil's southern state Paraná from 1994 to 2002.

¹ NAKAGAWA S., LARATTA R., BOVAIRD T., Hureai kippu – lessons from Japan for the « Big Society », Institute of Local Government Studies, University of Birmingham, March 2011, available at: <http://www.ilgc.org.uk/en/pdfs/Hureai%20Kippu%20-%20Lessons%20from%20Japan%20for%20the%20Big%20SocietyCESedit17March2011.pdf> (accessed on 4. March 2014)

² LERNER J., The Development of Brazil's City of the Future, available at: <http://www.pbs.org/frontlineworld/fellows/brazil1203/lerner.html> (accessed on 5. March, 2014)

CONCLUSION

Bernard Lietaer, the author of *The Future of Money*, assumes that the New Economy could create 30 to 40% of a state's GDP, which will create an environment that could develop and become more resilient toward external adverse conditions. Another reason why interest-free currency is a valid instrument for boosting the economy is that it could be further used as an instrument for state's financial recovery. Let's imagine that the state will pay 20% of salaries of civil servants in local non-convertible currency. These 20% could only be spent in the country where they earn salary, for example in grocery stores. Grocery stores would want to spend such currency as quickly as possible so they would not have to pay next month for not spending it. They could, however, use it to buy more groceries or other products only from local producers. These local producers could then use the currency to pay taxes or railway transport of their goods within the country. As a result, the state saves 20% of spending on civil servants. At the same time it would promote the consumption and demand for domestic goods and services.

Another reason for its practical efficiency is that supplementary currency could be used to fund large-scale public investments. In tender conditions, for example, on motorways or reconstruction of schools and hospitals could be one condition that one third of payments will be made by the state in an interest-free currency. Employees of large suppliers could choose whether they want a new long-term employment under conditions that part of their wages would be paid in local currency. To conclude, an important reason why local interest-free currency is a valid instrument is that it could become a new tool of state's own economic policy, independent from economic policies of ever more integrated Euro area member states.

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