

Local currency holds promise for relieving poverty while enhancing social capital and helping communities meet goals. In spite of this, governmental policies have created barriers to its full success. This paper examines local currency from a community development perspective, reviews the policy environment in the United States, and identifies policy changes that can support local currencies. Four major types of local currency—proxy, fiat, local exchange trading systems, and time banks—are described. Federal policy barriers in the U.S. Constitution, statutes, and tax regulations as well as state prohibitions to local currency are examined.

Throughout American history, local communities have promoted the wellbeing of their members by developing and utilizing economic, social, environmental, and human capital (Hallsmith & Lietaer, 2011). Local governments and community-based organizations engage in community development to provide economic opportunities, safe environments, education, and social support (Fisher, 2005; Preston, 1991; Vargas-Hernández & Noruzi, 2010). Two important community development approaches are people-centered and bottom-up (Kang, 2011). People-centered community development emphasizes local control and self-efficacy. Bottom-up community development arises from the citizens and is based on local resources and perspectives. These approaches allow communities to tailor initiatives to their visions and values.

In impoverished locales, one of the major challenges of community development is the lack of financial resources (Community Development Foundation, 2010; Weyers & van den Berg, 2006). To the frustration of concerned citizens, there may be resources available in the community—underemployed individuals with available time, vacant lots that could become

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community gardens, yoga classes with room for more students—yet there is not enough money to engage this capacity (Eisenstein, 2011; Hallsmith & Lietaer, 2011). Vacant lots stay vacant, classes stand empty, and human potential remains underutilized. A study of community development corporations (CDCs) in Detroit, Michigan, (Silverman, 2003) found they faced difficulty funding their initiatives. Many of the CDCs reported that available grant funding did not match the true needs of their communities. Instead, the CDCs molded their missions to meet funders' visions; this “top-down nature of the grant process” (p. 2743) precluded CDCs from setting their own community-based agendas, impeding people-centered and bottom-up approaches to community development.

Since 2011, federal funding for many community programs such as tutoring, job training, education, and meals for elderly citizens has been cut (Bipartisan Budget Act of 2013; Budget Control Act of 2011; Liberto, 2013; Matthews, 2013). The U.S. Department of Housing and Urban Development reduced spending on Community Development Block Grants, which are designed to encourage citizen participation and improve low- to moderate-income communities, from \$4.45 billion in 2010 to \$2.798 in 2014 (U.S. Department of Housing and Urban Development, n.d.). Even public libraries are experiencing lean times, requiring cuts to collections, staff, and hours of operation (Hoffman, Bertot & Davis, 2012). Though much of the funding for social services still originates from the federal government, increased responsibility is being placed in the hands of local communities. However, smaller geographies are often at the mercy on the national and global economy and have limited influence on their own economic wellbeing (Eisenstein, 2011; Hallsmith & Lietaer, 2011).

A people-centered, bottom-up tool that has the potential to give local communities more control over their development efforts is local currency (Hallsmith & Lietaer, 2011). Described

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in detail below, local currency can take a variety of forms and operates in conjunction with the national currency. Local currencies have existed in the United States since colonial times (Solomon, 1996b) and recent decades have seen a resurgence in their use. In 1991, the Ithaca HOURS printed currency was introduced in Ithaca, NY (Raddon, 2003). Since then, over 200 local currency systems have started in the United States (Collom, 2011). Though touted as way to reduce poverty and empower individuals and communities, local currencies are often inhibited from fully flourishing by governmental policies. This paper examines local currencies from a community development perspective, reviews the policy environment in the United States, and identifies policy changes that can support local currencies and their promise for community development and poverty reduction.

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Local Currency as a Community Development Tool

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Local currencies are a form of complementary currency that operate in conjunction with national legal tender and are not intended to supplant it, but to complement it. From airline mileage points (Hallsmith & Lietaer, 2011) to the online currency Bitcoin (Nakamoto, 2008), complementary currencies facilitate the exchange of goods or services. Local currencies are a specialized type designed as a public good in geographic areas to help promote community goals for cultural, human, social, and economic capital and infrastructure (Hallsmith & Lietaer, 2011).

Like community gardens and alternative financing, local currency is a part of a re-localization movement and aspires “to increase exchange activity at the local level and support all of the positive cultural and social outcomes of greater local employment, mutual self-help and cooperation” (Raddon, 2003, p. 43). Local currencies are crafted to reflect the unique characteristics of a community because backing a currency with local goods or services promotes those products. For example, a community currency in Philadelphia bases its currency creation

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on volunteerism ("Equal Dollars," n.d.) and a food-based currency in Montpelier, VT, increases supply and demand for locally produced food (Hallsmith & Lietaer, 2011).

The literature indicates that local currency helps develop social and human capital (Hallsmith & Lietaer, 2011; Williams, 1997). Local currency has been shown to build relationships and increase social support (Graugaard, 2012; Jacob, Brinkerhoff, Jovic, & Wheatley, 2004; Nakazato & Hiramoto, 2012), increase community pride (Graugaard, 2012; Jacob et al., 2004; Raddon, 2003), help people develop new skills (Jacob et al., 2004), and enhance personal growth, wellbeing, and mental health (Graugaard, 2012; Lasker et al, 2011; Letcher & Perlow, 2009; Richey, 2007). Promoters of local currencies also see them as a way to improve economic conditions and resiliency, support community values, empower communities and citizens to meet specialized as well as basic needs, and assist economically marginalized citizens (Collom, 2005; Hallsmith & Lietaer, 2011; Seyfang, 2002). Economic resiliency and monetary theory suggests community currencies have the potential to make a significant economic impact (Graugaard, 2012; Hallsmith & Lietaer, 2011). Research has shown modest, though important, economic effects including increased local wealth, improved business infrastructure and local economy, and altered spending patterns (Graugaard, 2012; Solomon, 1996b; Williams, 1997). Nonetheless, scholars concur that in the present policy environment, local currencies face barriers to increasing their economic impact beyond a small to moderate scale (Eisenstein, 2011; Hallsmith & Lietaer, 2011; Schroeder, Miyazaki, & Fare, 2011; Solomon, 1996b).

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There are many ways to design local currency. In the United States, communities select designs to reflect their goals and values, while operating within the boundaries of state and

federal policy (Solomon, 1996b). There are four basic types: (1) proxy, (2) fiat, (3) local exchange and trading systems (LETS), and (4) time banking. To better understand the effects of policy on local currency, a brief description of each type is provided.

Proxy currencies are pegged to, backed by, and exchangeable for the national currency (Eisenstein, 2011). They stimulate the local economy through supporting buy local campaigns and raise awareness of local businesses. They have been promoted as a way to increase the tax base and create jobs (New Economy Coalition, 2013). The BerkShares currency in Berkshire County, Massachusetts, is a proxy currency. One-hundred BerkShares can be purchased for \$95 U.S. at participating local banks (New Economy Coalition, 2013). BerkShares are recognized by local businesses as having the same value as a U.S. dollar, an incentive which provides a built-in discount for patrons using BerkShares.

Local Fiat Currencies are not backed by a currency or commodity (Solomon, 1996b). They are put into circulation through member enrollment, no-interest loan programs, or other agreed upon conditions. The worth of a fiat currency is established by the willingness of users to agree to it as a means of exchange and a measure of value. Local fiat currencies can give unemployed and underemployed individuals increased earning, and thus spending, opportunities. In addition to stimulating the local economy, they help promote community values (Eisenstein, 2011; Hallsmith & Lietaer, 2011; Solomon, 1996b). For example, they can be issued to participants in health promotion events, community arts projects, environmental cleanup activities, or any type of activity that the community chooses to sponsor (Hallsmith & Lietaer, 2011). The Equal Dollars currency in Philadelphia, Pennsylvania, is a local fiat currency (New Economy Coalition, 2013; "Equal Dollars," n.d.). Equal Dollars are issued when members create accounts and volunteer with local service organizations. They can be spent at an online

marketplace, farmers' market, consignment store, community bicycle program, and other local businesses. Equal Dollars provides low-income individuals with access to necessary goods and services while supporting human service organizations, promoting healthy behaviors, and stimulating the local economy.

Local Exchange and Trading Systems, or LETSs, are mutual credit systems used for the exchange of goods and services. Though not common in the United States (Collom, 2011; Solomon, 1996b), LETSs are perhaps the most prevalent type of local currency in the world (Schroeder et al., 2011; Seyfang, 1997). Upon joining a LETS, members have an account balance of zero. At the point of purchase, the buyer's account is debited and the seller's account is credited for the purchase amount in the currency of the system. Fourth Corner Exchange, a for-profit LETS in Bellingham, WA, coordinates trades using Life Dollars (Fourth Corner Exchange, n.d.). It has a social justice-based mission and has facilitated the exchange of over \$1.4 million of goods and services since its inception in 2004 (Fourth Corner Exchange, n.d.). Green America Exchange is run by a non-profit association of 3,000 socially and ecologically conscious business members (Green Business Network, n.d). It uses "Trade Dollars" and a system of buyer and seller ratings and reviews (Green America Exchange, n.d.).

Time banking systems are similar to LETSs, but instead of an exchange currency, the unit of account is time (Cahn, 1999). Members offer and seek services in a directory and exchange hours of service throughout the network. In time banking systems, every member's time is valued equally. This egalitarian system is intended to support the "[c]ore [e]conomy of home, family, neighborhood and community" (Cahn, 2001, p. 2) and values domestic and service work. Time banking builds relationships and helps people with low incomes (Eisenstein, 2011). Time banks are prevalent in the United States (TimeBanks USA, 2013). In 2009, the City of

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Montpelier, VT, spearheaded the creation of the REACH (Rural Elder Assistance for Care & Health) Care Bank (Hallsmith & Lietaer, 2011) which focused on personal health and wellness services for elders in the community (City of Montpelier, 2009).

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Policy Environment for Local Currency in the United States

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Although many citizens may be unacquainted with local currency, many forms of it are legal in the United States (Solomon, 1996b). Federal law permits private entities to issue currency; however states (U.S. Const. art. I, §10) and local governments (*The Mayor v. Ray*, 1873) are not allowed to create currency. This is unfortunate for local currencies because municipal governments have staffing, community relationships, citizen communications, infrastructure, and experience in navigating federal regulations and are well positioned to be successful currency managers. Urban geographer Michael Pacione (1997) argues that “currency issued by a public authority, such as a municipal government, is...likely to attract a high level of credibility particularly if it can be used to pay fees and taxes” (p. 68).

Designed as a socially responsible public good, a local currency may be administered by a tax-exempt non-profit organization. Operating as a recognized non-profit organization is beneficial in terms of federal policy. For local fiat currency systems that are not pegged to the U.S. dollar, operating as a non-profit allows the currency organization to be exempt from the Securities Act of 1933 (Solomon, 1996a). Without this exemption, currency organizations would have to register with the Securities and Exchange Commission, abide by disclosure, privacy, and other administrative requirements, and pay related fees (Securities Act of 1933). For time banks and LETS, the IRS has provided private guidance that operating as a non-profit is a condition which might help ensure a time bank is not considered a “barter exchange” (Swennen, 2012), thus avoiding additional 1099-B reporting responsibilities under the U.S.

Treasury regulations (26 C.F.R. § 1.6045-1). Though nonprofits may gain trust and promote community values (Solomon, 1996b), without sufficient resources they may face difficulties in administering local currencies. In fact, nonprofit currency managers often rely on volunteer staffing and tend to use on word-of-mouth advertising rather than employing more professional marketing methods (Lepofsky & Bates, 2005; Seyfang, 2002; Williams, 1997).

Other federal laws apply to the look and denomination of complementary currencies. These restrictions are most applicable to proxy and fiat currency systems that print and distribute bills. The production of metal coins (18 U.S.C. § 486), money similar in look to U.S. national currency (18 U.S.C. § 491), or currencies with denominations of less than one dollar (18 U.S.C. § 336) is banned. Notably, the Supreme Court has ruled that the prohibition of denominations of less than one dollar does not apply to currencies with “only a neighborhood circulation” (*United States v. Van Auken*, 1877). This suggests that local currencies may be able to issue denominations of less than one dollar, but the legislation remains in the U.S. Code with no modern ruling to clarify the meaning of neighborhood circulation. As a result of these laws, printed local currencies have unique design features that set them apart from U.S. national currency. If currency systems desire coins, they may use materials other than metal to make coins, but the prohibition of denominations less than one dollar could inhibit the currency’s usefulness for small purchases.

There are at least two situations in which federal laws with administrative requirements may apply to local currency systems. LETS are considered barter exchanges (26 C.F.R. § 1.6045-1(a)(4)) in the United States and the reporting responsibilities for barter exchanges can be substantial. Specifically, the U.S. Treasury requires barter exchanges with over 100 transactions per year to issue a 1099-Bs for each transaction in excess of one dollar made by a non-corporate

member. LETS like the Green America Exchange, which have only business members, are able to issue 1099-Bs on an annual basis (Green America Exchange, n.d.) because their members are businesses, but LETS with individual members are required to provide the paperwork at the time of each individual exchange.

The second potential set of administrative requirements comes from the Bank Secrecy Act of 1970 which applies to money transmitters. It is possible that local currency systems with electronic exchanges (e.g., LETS) may be subject to it. Businesses covered by the act must become licensed and provide reports to regulatory agencies. Though the regulation suggests that local currency systems might not fall under its reach, it states that whether or not a business is covered is “a matter of facts and circumstances” (31 CFR §1010.100(ff)(5)(ii)) without a precise explanation of what the facts and circumstances entail. FinCEN, the branch of government that enforces the act, has not provided guidance on the applicability of the act to local currencies (United States Department of the Treasury, n.d.). If the act does apply, small local currency operations could find compliance with the act burdensome.

In addition to currency managers, participants are also affected by federal policy. For a currency system to be viable, it must attract and retain members who use the currency. One major disincentive to full use of local currency is that money earned in local currency is taxable income, yet the federal and state taxes must be paid in U.S. dollars (Eisenstein, 2011). In fact, the U.S. Constitution prohibits states from accepting “any Thing but gold and silver coin” (U.S. Const. art. I, §10) as payments. Even though payment by gold and silver coin is no longer customary, it does not follow that local currency can be accepted. This provision means that users of local currency must also acquire enough U.S. dollars to pay their tax liabilities, even when the liabilities are incurred in local currency. The ability to pay taxes in a particular

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currency is what validates it (Wray, 1998) and without this characteristic, local currency may struggle. Consider some fiat systems in which currency accumulates with businesses who are unable to spend it in the same amount they receive it due to the lack of commercial vendors who will accept the currency (Eisenstein, 2011; Lepofsky & Bates, 2005). As a result, the businesses may limit the amount they accept or decline to participate in the system altogether. A healthy local currency system needs participating businesses. If participating businesses could pay taxes in local currency, this problem would be diminished (Eisenstein, 2011).

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State Law

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With some notable exceptions, most states allow private local currency. Arkansas prohibits its issuance by individuals or corporations (Ark. Code Ann. § 4-17-102; Ark. Code Ann. § 4-17-103). Massachusetts bans the issuance and use of currency that is not created by a bank incorporated in the state (Mass. Gen. Laws ch 267, § 21). Lastly, Virginia prohibits issuance of local currency without specific authorization by law (Va. Code Ann. § 6.2-202). Florida and Massachusetts have state laws that prohibit counterfeiting (Solomon, 1996b), but appropriately designed community currencies would not be considered counterfeits.

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Supporting Local Currency through Policy

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Widespread use of community currency is difficult to achieve without government support (Eisenstein, 2011). After a massive review of complementary currency literature and publications, Schroeder and colleagues (2011) concluded the need for policy change to help local currencies prosper. Internationally, government support has been given to currency systems and may serve as a model for policy support in the United States. Examples of international as well as domestic policy support illustrate how government bodies can encourage local currencies.

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Local Policy Supports

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Although municipalities in the United States are not allowed to issue their own currency, they can nonetheless aid privately run systems. First, they can provide funding. In Toulouse, France, the city is the primary funder for the local currency SOL-Violette (OuiShare TV, 2013). The city gave the project 120,000 euros for startup, and in the first year of operation, the currency grew to 1,000 users and 95 participating businesses and became a model for communities across Europe (Paracchini, 2012). In England, local governments have also provided funding (“Brixton People,” 2013; Seyfang, 2002). While cities may not have their own funding for currency project, they may be able to leverage support from other sources. The City of Montpelier, VT, used grant money from the U.S. Department of Health and Human Services (n.d.) to help create the REACH Time Bank.

The second way in which local governments can aid local currency is by accepting it for payment of taxes, fees, and services. As noted earlier, the U.S. Constitution prohibits states from doing so (U.S. Const. art. I, §10), but this does not extend to municipalities. Accepting fees and taxes in a currency creates a demand for the currency and drives local production and consumption (Hallsmith & Lietaer, 2011). In the city of Bristol, England, strong support from the city council propelled the Bristol Pound to success. In its first year, it recruited over 600 businesses and issued over £250,000 of currency and now the city council accepts it for payment of taxes, fees, and services (“Council will take tax payments,” 2013; Harvey, 2012). Similarly, the London district of Brixton council accepts their local currency for payment of business taxes and offers to pay portions of their employees’ salaries with it (Shakhli, 2013). In the United States, a smaller scale example occurred when the public transit system in Ithaca agreed to accept up to \$5 worth of Ithaca HOURS as payment toward a monthly bus pass (“Ithaca HOURS Accepted,” 2009).

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State Policy Supports

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State governments can also play a role. Those that prohibit complementary currencies (Arkansas, Massachusetts, and Virginia) could revise their statutes to allow local or social purpose currency systems to operate. Indeed, the State of California recently did just that by repealing a section of their Corporations Code that prohibited the issuance or circulation of complementary currencies (2014 Cal. Stat. 1951). The bill passed with wide support: 28 to 12 in the Senate and 52 to 27 in the Assembly (“AB-129 Lawful Money”, 2014).

Though states cannot accept local currencies for payment of taxes or debt (U.S. Const. art. I, §10) unless there is federal legislation (*U.S. v. Rifen*, 1978), there are other means of support they can provide. They can educate the public about local currencies, hold trainings for potential currency managers, publicize existing local currencies and administer currency accreditation services. Without violating federal law, states can create their own time banks. For example, Vocational Rehabilitation and Unemployment Offices could run time banks to help clients develop skills or Parks and Wildlife Departments could develop innovative uses of time banks to encourage volunteerism and facility use.

The state of Vermont has passed legislation (Vt. Stat. Ann., tit. 11, §§ 921-938) that gives the state and local governments influence in the creation of local currency without actually issuing it. The statute provides for the formation of “scrip corporations” for the sole purpose of issuing complementary currency (Vt. Stat. Ann., tit. 11, § 921). If the scrip corporations issue currency backed by deposits in a Vermont bank, they can operate without government involvement in the creation of currency. However, the amount of currency that can be issued cannot exceed 1/3 of the principal on deposit. Compared to the BerkShares currency which is issued at a rate of 105% of the cash deposits (New Economy Coalition, 2013), this is quite

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restrictive. However, the statute also allows for the issuance of “scrip” based on “short term notes and obligations of towns, cities or other municipalities” (Vt. Stat. Ann., tit. 11, § 926). In effect, this allows local currency to be created by local governments in the same way the United States government creates dollars by issuing treasury bonds to the Federal Reserve Bank (Wray, 1998). By working with a scrip corporation, the state or a city could, in essence, borrow local currency into existence. While this is an important model for local governments wishing to be involved in the creation and circulation of local currency, in reality it does not appear to be currently utilized. A search of the Vermont Secretary of State corporate database (Vermont Secretary of State, n.d.) revealed no existing scrip corporations.

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Federal Policy Supports

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Federal policy change could have a tremendous effect on local currencies. As indicated by the Supreme Court, Congress can pass legislation to allow local governments to issue their own community currency and allow states to accept local currency as payment of taxes and other debt (*The Mayor v. Ray*, 1873; *U.S. v. Rifen*, 1978). Either one of these actions would create an entirely new and supportive policy environment in which participation in local currencies is fostered.

Other federal changes could assist with currency administration. Local proxy and fiat currencies could gain flexibility if the ban on currency denominations of less than one dollar was repealed. Exemptions for local social purpose currency organizations to money transmission and securities regulations could ease administrative burdens for LETS. These regulations were not crafted for the unique circumstances of local currency, but were intended to prevent money laundering and protect investors (Bank Secrecy Act of 1970; Securities Act of 1933). Another administrative obstacle for LETS could be removed if legislation were passed to allow 1099-Bs

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for individuals to be issued on an annual basis rather than at the time of each transaction.

Another important consideration is to ensure Congress minimizes unintended adverse effects on local currencies when it creates future legislation to regulate large commercial virtual currencies like BitCoin.

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Conclusion

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By providing economic opportunities, stimulating the local economy, and encouraging social connections, local currencies can assist communities meet their goals and support their unique values. Local currencies across the globe support socially and ecologically responsible businesses, the arts, education, and economic development, and address the needs of vulnerable populations. They are an innovative people-centered tool for community development which can succeed even when the national currency is scarce. However, challenges emerge from their policy environment which threaten their full success.

To address policy barriers to local currency, community leaders and organizations can engage in policy advocacy on a variety of levels. As the State of California has shown, efforts to repeal state prohibitions can be successful. Citizens of Arkansas, Massachusetts, and Virginia can request their representatives to sponsor and support bills to repeal the restrictive laws. Similar advocacy can be done at the federal level where legislators can be encouraged to repeal the ban on currencies of less than one dollar, provide exemptions for local currency systems in the Bank Secrecy Act of 1970 and Securities Act of 1933, and revise the reporting requirements for barter exchanges.

Policy change is not without risk. Because local currency research is still in an early stage, communities cannot ensure the currencies will bring the social and economic gains suggested by theory. To deal with this uncertainty, policies can be piloted on the state and local

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level, especially in regions where currencies are already operational. For example, municipalities can experiment with accepting community currency for public transportation fares, parking fees, or other services. Strict requirements could be implemented allowing select businesses to pay fees in the local currency. In time, successful pilots can be made permanent. With local and state support, local currencies can enjoy additional success.

As they flourish, federal policy changes will become more appropriate. At this point, advocacy for federal legislation to allow states to accept local currency as payment and allow local governments to create their own currency may prevail. In the meantime, currency advocates can educate their representatives about local currencies and the communities that support them. They can also monitor potential legislation on virtual currency to ensure it does not contain provisions that would harm local currency.

In addition to advocacy, there is a need for increased evaluation and research of local currencies. Public funding and partnerships between communities and universities can facilitate this. As policies are implemented, they need to be empirically studied to understand both the intended and unintended effects of policy change on local communities. With the collective efforts of multiple research, policy, and community partners, local currencies can realize their full potential for empowering communities achieve their dreams and visions.

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