

Local Currency Backed by Local Labor

Robert W. Copple

Abstract

Local Currency Backed by Local Labor is a concept paper that suggests that a rural third-world community's prosperity could be improved by companies of men and/or women issuing currency backed by their labor. The paper offers a suggestion about how labor-backed currency could be implemented, and presents a few examples of how the concept might work.

Key Words

Third world, economic activity, rural prosperity

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Local currency backed up by local labor is a way to jump start the economy of a rural third-world community by creating employment and producing goods, services and infrastructure in the community.

In observing rural areas in many third world countries in Africa, Latin America, and parts of the Middle East and South Asia, you see severely depressed economic activity. Men and women are unemployed or severely underemployed. At the same time you see there is a lot of work that needs to be done: Buildings are in disrepair, and public infrastructure is almost non-existent or in poor condition. Farm fields are poorly tended. Children often don't attend school; in fact, there may be no school.

These communities exist on a bare subsistence level. The economic activity that takes place is largely bartering, a chicken for bread, or I'll watch your children if you repair my roof. Bartering works, but it is limited because multiple transactions are difficult, e.g., I want eggs, but you have bananas; and the guy over there who has eggs doesn't want my goat milk. Now the guy with eggs could use bananas, but he doesn't want my goat milk either; and the guy who needs goat milk is out in the field picking up firewood. There are market places where multiple exchanges occur, but these markets are likely to depend on the national currency. Bartering markets seldom occur more than once or twice a week; and because of the coordination problem of trading goods and services, the level of economic activity is low.

The type of rural area being discussed could be a somewhat isolated village or hamlet of one hundred families consisting of, perhaps, 500 people. The population could also be much smaller or larger. Often in rural areas there is no distinct village confined and surrounded by unpopulated farmland or forest. Instead the communities exist along roads where there is almost continuous habitation or urban sprawl, behind where there is farmland, forest, etc. In this case a community will consist of a particular length along the road, say a kilometer or so and with the same 100 or so families.

These communities only generate money (the country's currency) by selling goods and services outside the community. This occurs when products (farm or manufactured) are sold elsewhere, or local men and women work outside the community and bring or send currency home. When we consider that (1) the neighboring communities are probably similar in their lack of economic activity, (2) that generally there is poor transportation, and (3) often public officials are corrupt, e.g., "Where is your license to do business?", it is easy to understand very low levels of economic activity. The limited money that appears doesn't remain long, where it could be circulated many times, but disappears because outside goods and/or services must be imported, i.e. gasoline, medicine, or because money for travel is spent elsewhere.

With little money available in such a community, unemployment and underemployment is high. Not much happens. This is a problem throughout the third world. A possible solution is "Local Labor Currency".

What is Local Labor Currency? Local Labor Currency (LLC) could also be called Labor Backed Currency or Local Labor Certificates. These certificates permit the holder to obtain one unit of labor, i.e., an hour or a day, in exchange for the certificate or LLC. Who issues the LLC? Answer: A company of local men and women who get together and issue printed, or some valid form of, certificates. Each certificate should be numbered and have the signature of the company's leader. Additionally the certificate should have the number of men who are in the company, the total number of certificates issued, each consecutively numbered (i.e., #10 of 50), and the date of issue. Because this company will be local and small, the certificates must have the name of the local community where the certificates, or LLC's, can be redeemed.

The value of the LLC's will depend on the reliability and productivity of the people in the company. The printing and paper used for the LLC's should be durable and of good quality so that they cannot be easily counterfeited. The area of circulation must be small enough so that most people know the company and most of its members. The integrity and work ethic of the company, and in particular of its leader, will determine the value of the certificates and the success of the company.

So, how might this work? Let's imagine a hypothetical community: A third world village in Africa, or Latin America, where there are 100 families with a total population of 500. The village is spread out along an unpaved road over about one kilometer with most houses clustered within 400 meters. The next village is about three kilometers away. Some men work part-time for low pay on farms of large landowners. Most families have very small farms where they grow corn and vegetables and raise chickens, and maybe a goat, a cow, or a burro. The houses generally have dirt floors, and only a few have electricity. The only manufacturing involves the making of handmade baskets and pottery for which there is a limited market. Most men can't find paying work most of the time. Just about everyone knows everyone else. There are two small stores where basic goods can be purchased, and there is an outdoor market along the road near the village center once a week. There are at most three or four vehicles consisting of small tractors or older trucks. There are a few telephones. Public employees consist of two policemen and a water company employee who maintains the rudimentary water system. The public school is in the next village. Only a few children attend because of the distance.

Now a person arrives whom we call the Local Labor Currency Facilitator. He is an employee of an international commission or a charity supporting economic development. He meets with some of the men and explains what an LLC company is. He finds that twelve men are somewhat interested. They have nothing to lose other than a few days of work. They are all underemployed or unemployed. Among them is an older, former schoolteacher who is known to everyone and appears to have some leadership abilities. The facilitator explains the importance of their commitment to provide the labor that the certificate guarantees, and that they must fulfill that commitment once the certificate is issued and until they get the certificate back upon completion of the stipulated labor. It is explained that initially the certificates will have little value, until the company establishes that the labor to be purchased by the certificates is of good value and is dependable. It is also explained to these men that the certificates (LLC's) are to be freely exchanged within the local community, and their value will fluctuate. Further, the labor is to be up to community standards; nothing illegal or immoral is required of the LLC issuers.

The facilitator encourages the twelve men to select the older, former schoolteacher as their leader; and he gives them, say, 96 preprinted certificates, 8 per member. Each certificate indicates it is to be redeemed by its holder for one day's local labor, or so many hours of local labor, up to community standards. It also states that the labor is to be provided within the local community unless otherwise agreed to between the LLC holder and the workers.

What happens next? First, each one of the twelve men and/or women of the company exchanges about half of his share of the LLC's (4 each) for whatever he can barter for: Some eggs, an old bike, some tools, meals, perhaps even his country's currency. Next some of the people who first obtained the certificates

need some labor, e.g., turn over the vegetable patch, repair a roof, build a stone wall, or clean up a chicken coop. Others may choose to sell or exchange their certificates. One of the more prosperous men in the village may need labor to work on his new house and may need many hours of work and agree to pay or barter close to a normal wage for each LLC. As word gets around, the certificates increase in value, and form an alternative local currency as more are issued. Again, the value and acceptance of the LLC's depend on the productivity and integrity of the people who issue the LLC's.

By themselves, the LLC's don't bring in any national currency; but they, of course, can be used to provide labor for agriculture or other local products that can be exported and bring in real money for the community.

It's very important that the company founded by the 12 men has a system of ensuring that each member does his share of the work, and that the leader is trusted by the community as well as by company members. The leader must ensure that men show up for work and that they work to community standards.

Local Labor Currency provides an alternate currency to be used to employ people. For a consumer who may have no cash (government currency) but may be able to barter some services or products for some local labor certificates worth a few days' work, the certificates he holds will have real value. He knows he can get some work done, or he can exchange the LLC's for products or other services he needs, perhaps even for cash.

For the issuers of the LLC's, the local labor company, the LLC's are a means to obtain goods and services for a guarantee to provide future value or labor. The LLC's become currency backed mainly by labor. If the company limits the number of certificates to what the total number of men in the company can redeem in a reasonable length of time, their value will hold steady within the community. If they issue too many certificates, and can't perform the work in a reasonable time, the value of the certificates will diminish.

After the first 96 certificates have been issued, let's assume that most are redeemed and then reissued or re-circulated for goods and services and an established value for the certificates is approximately established in terms of the country's currency. The company may wish to add members and/or issue more certificates.

Government regulation of local-labor-certificate issuers may be needed. However if the regulations are cumbersome, or licenses are hard to obtain, they won't work. At the most, very simple rules should apply and there should be few barriers to entry. There are some possibilities for abuse of LLC's. For this reason, a rural community would probably be preferable to an urban community where the members of the company issuing the LLC's may not be well known in the community.

Within a small rural community the certificates can be circulated over and over again, forming a local currency. Local Labor-Backed Currency should lead to a better distribution of labor, and could promote a condition, or conditions, that would allow for specialization. Per Gary Burke, "In third-world situations, one of the problems is that everybody does everything. The idea of specialization is trumped by the need to feed and clothe oneself, thus the same person who plants seeds also makes his own shoes. Local Labor-Backed Currency could be a way out of that cycle."

As Local Labor-Backed Currency catches on, other companies of men and women may get together and issue currency in the same community. There could be a company of mostly men who offer labor for farming and construction, and another company of mostly women who offer labor for the household.

A good use of Labor-Backed Currency would be education. Let's assume there isn't a school close enough for most children to attend. Offering Local Labor-Backed Currency to a school teacher might solve this problem. The teacher could use the currency for housing, housekeeping, house repair and improvement, as well as for food and clothing. Labor-Backed Currency could allow the teacher to have a more prosperous life than otherwise, and children of the very poor could thus receive an education.

A local merchant may act as a trader in Labor-Backed Currency. Large land owners may find they get more farm work done using Labor-Backed Currency which they obtain at a discount from the merchant who has accepted the Labor-Backed Currency in exchange for goods that are normally sold for cash.

Local infrastructure is another area where Labor-Backed Currency could help a local community. Instead of depending on volunteer labor where the volunteers are the only contributors, the community can solicit Labor-Backed Currency from everyone and the effort can be shared. By improving sewers, building latrines, improving roads, etc., the whole community benefits.

If a local community issued currency backed by an asset such as gold or silver, and the people of the community had confidence that whenever they wanted to they could exchange their paper currency for gold or silver, the community's currency would have value. The same reasoning holds for Labor-Backed Currency. If people of the community have confidence that labor will be provided when they present their Labor-Backed Currency, the currency will always have a value equal to the noted units of labor.

Although rural third-world communities do not have assets such as gold or silver, they do have a very valuable asset, local labor. Mobilizing the labor is the key. Local Labor-Backed Currency just might be able to accomplish this.