

Buy Local—With Town Currency

Dollar alternatives, such as BerkShares in Massachusetts, are shoring up local economies by keeping money in the community

by Jeffrey Gangemi

Steve Carlotta, owner of the three-employee Great Barrington (Mass.) camera store Snap Shop, had been losing business for the last five years to discounters on the Internet. Then, in September, 2006, his town launched a currency program called [BerkShares](#) designed to strengthen the local economy by encouraging consumers to support local businesses. Participating businesses agreed to offer shoppers who used the program's BerkShares paper scrip instead of dollars a 10% discount on all purchases.

Carlotta says he might have had to shutter Snap Shop if BerkShares hadn't been introduced. Where a few years ago, Carlotta says, he would develop about 300 rolls of film a day, he's now down to about 90. The BerkShares program, he says, made up the difference. "Most of the other camera shops have already packed up and left town. I've picked up a lot of new customers; it's just good business," he says.

The program works like this: Shoppers visit one of 10 branches of four participating local banks and convert their cash into BerkShares scrip. For every 90 cents, they receive one BerkShare note, that is accepted at some 280 participating area businesses; it's also honored at about 250 other businesses throughout the Southern Berkshires region that aren't officially registered, but still do some business in BerkShares.

STUDYING THE SUCCESS STORY

The idea of community currencies, or programs designed to keep local money at local businesses, is not new. In fact, [Ithaca Hours](#) was developed in Ithaca, N.Y. in 1991 and now has 900 participating businesses and has spawned about 80 imitators, says Ed Collom, assistant professor of sociology at the University of Southern Maine, who conducted a study of all the Hours-model community currencies in the U.S. in 2004.

Though Collom's research found that 80% of attempts at Hours-based community currencies have fallen into disuse or shut down altogether—most for lack of support and dedicated leadership—the BerkShares system is injecting new life into the movement. It has attracted interest from a number of governments, including the city of Newark, N.J., and communities in the Western U.S. and Canada that are looking for ways to stimulate local economies.

"One of the important roles that a community currency plays is as an educational tool that reminds people about their local businesses, local economy, and develops a sense of pride in the region and those businesses," says Susan Witt, executive director of the non-profit E.F. Schumacher Society, which created the BerkShares program and works to develop locally-sustainable economies.

STOPPING WAL-MART ECONOMIES

"Over the last few years there has been an explosion of grassroots activity to revive and strengthen independent businesses," says Stacy Mitchell, author of *Big Box Swindle* and senior researcher for the Institute for Local Self-Reliance (ILSR) (see [BusinessWeek.com](#), Winter, 2006, "[Chains That Choke](#)"). Mitchell says there is evidence,

as in Wal-Mart's([WMT](#)) announcement that it will slow its ambitious expansion plans, that community-based action is working (see [BusinessWeek.com](#), 6/1/07, "[Wal-Mart Lets Up on the Gas](#)").

Some research has pointed to devastating effects of big-box stores on local communities. One study in Maine by the ILSR found that, for every dollar spent at a big-box store, about 14 cents stayed in that state. The researchers then compared that to locally-owned businesses, where they found that 54 cents of every dollar stayed in the state. "If you can shift 10% into retail businesses, you generate more jobs and income. Community currencies can be an effective tool for that as they allow people to see what happens to the dollar," says Mitchell.

But starting a new currency is no picnic. For local merchants it involves more difficult accounting, and possibly separate cash registers to keep the community currency and federal currency separate. Organizations that produce local currencies are prohibited by U.S. law from producing coins or printing bills that resemble federal dollars. There are also some minor complications with reporting sales tax to the state, which Carlotta says takes him about one extra hour a month to sort out. Perhaps most importantly, merchants have to devise a way to spend the currency, which can be a problem if they're using suppliers out of their local area.

DEBITS WITHOUT DOLLARS

And the 10% discount can be tough on low-margin businesses. "On high-ticket digital stuff, sometimes it's not even a wash. Maybe on an individual sale, I lose a bit of money. But in the cases that it has happened, repeat business with the same customer has more than made up for it," says Carlotta.

That's why the BerkShares program, in cooperation with its local banking partners, is working to create debit cards and checking accounts that deal in BerkShares. All of the participating banks have already approached the Schumacher Society about moving county-wide with the program, says Witt. "It works hand in hand with their local focus, and they're working to ensure that more robust trade is done in BerkShares," she says.

The BerkShares program has already reached a benchmark of 900,000 BerkShares disbursed, and is planning a celebration to mark the one million mark. If it continues to be successful, it could become the new model for competing with big-box stores (see [BusinessWeek.com](#), 12/27/06, "[Searching for Indie America](#)"). "I can see it spreading to other communities. I don't see how it shouldn't. It's just a good promotion," says Carlotta.

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