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It's Like Money, but With No Dead Presidents

Do "local currencies" really help the communities that use them?

By Tim Harford

Posted Saturday, May 3, 2008, at 7:33 AM ET

I was recently invited to appear on radio to provide the economists' perspective on the costs and benefits of [local exchange trading schemes](#), which are alternative currencies that circulate around a small community. This made me scratch my head a bit. I could not think of any real benefits, but then I could not really think of any serious costs, either.

Proponents of community currencies argue that they have social, economic, and environmental advantages. [BerkShares Inc.](#), which organizes a local currency in Massachusetts, claims that the currency helps area businesses connect with their customers but also strengthens the regional economy by favoring locals. In the United Kingdom, "transition towns," which are seeking to use less oil, are exploring the environmental benefits of local currencies.

The common-sense economic case for these currencies was summed up for me by John Walker, acting treasurer of Brixton LETS in London: "They're more appropriate for local communities, because the money doesn't drain out of the local community."

That seems plausible: The money (Brixton bricks) goes 'round and 'round Brixton and isn't sucked away by the insidious multinationals of neighboring Clapham. But this is one of those cases in which common sense lets us down. Money, whether pounds or Brixton bricks, isn't wealth. It's just a way of keeping accounts, and swapping one system of accounts for another isn't going to alter the basic productive potential of Brixton.

True, community currencies may very gently encourage trade with locals rather than strangers. But the gains from more trade with locals are more than offset by the losses from less trade with strangers. Otherwise, economic sanctions would be a blessing. That is why no community-currency movement tries seriously to restrict broader trade. Everyone knows that is a recipe for return to the Dark Ages.

There have been times and places when national currencies have so malfunctioned that community currencies would have been preferable: Weimar Germany, modern Zimbabwe, perhaps also the Depression-era United States, where some community currencies briefly flourished. There is also a healthy debate in economics over the appropriate size of a currency union, but few serious economists think that the optimal currency area is the size of Brixton or the southern Berkshires.

Nor are the environmental benefits of community currencies terribly persuasive. Local trade sounds environmentally friendly, but it is a distraction: The environmental cost of driving to the

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shops or growing food on inappropriate local land is far greater than the cost of the carbon emissions of long-range shipping.

The real benefits, if they exist, are not economic but social, and best explained not by an economist like me but by a sociologist such as [Ed Collom of the University of Southern Maine](#).

Collom's work looks, at first glance, like bad news for the community-currency movement. He has found, for example, that most currency schemes in the United States last only a few years before collapsing. The ones that thrive are in places which already have strong, liberal, middle-class communities, such as Portland, Ore., or Ithaca, N.Y. In the Rust Belt areas that would seem to need them more, they have not taken root. The schemes take a lot of effort to set up: Brixton LETS, for instance, remains nascent.

But despite the obstacles, Ed Collom is convinced that local currencies can strengthen neighborhood ties and allow people to make friends: They are a focal point for the community-minded, even when they do not last.

That is possible. I live near a determined, community-minded entrepreneur who owns the local cafe, the sort of person who helps to get community currencies started. But rather than minting a [Homerton](#) dollar, she has founded a traders' association and is trying to set up a street market. I think she has the right priorities.

[Tim Harford](#) is a columnist for the [Financial Times](#). He is the author of [The Undercover Economist](#), and his latest book is [The Logic of Life](#).

Article URL: <http://www.slate.com/id/2190116/>

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