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# Virtual Money, Real Recession

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By Ryan Goldberg

If you have qualms with the greenback, you can always pick up some BerkShares or Ithaca Hours or Bay Bucks. That is, if you're in Berkshire, Massachusetts, Ithaca, New York, or Traverse City, Michigan.

Local currencies aren't a new phenomenon, but, in desperate economic times, they often find an audience. During the Great Depression, many communities relied on their own bills. We're not in that situation now -- the US dollar is still a global benchmark -- but there are a few dozen active local currencies in this country. Two neighborhoods in Milwaukee are the newest ones to consider it: Residents of Riverwest and East Side are scheduled to meet today to discuss printing their own money.

The goal behind local currencies is not to replace the US dollar, but to complement it. They're meant to encourage local spending in neighborhood stores and businesses, rather than big-box retailers and chains.

Sura Faraj, a community organizer helping to spearhead the Milwaukee plan, told the Chicago Tribune: "They can't spend it at the **Wal-Mart** ([WMT](#)) or the **Home Depot** ([HD](#)), but they can spend it at their local hardware store or their local grocery store."

Faraj should know that the shelf life for most currency schemes is only a few years before collapsing, according to Ed Collom, a sociology professor at the University of Southern Maine. The ones that have prospered are in places that already have liberal, middle-class communities, instead of beaten-down Rust Belt cities whose core industries have been hurt by globalization, and would conceivably benefit from local business growth.

The Ithaca Hours made their debut in 1991; it is the oldest and largest active local currency. The Hour, according to its website, is money "based on sharing, not scarcity. You make money just by joining. Then you have hundreds of prospective places to spend it, and hundreds of prospective customers who want to do business with you."

A business that agrees to take Hours pays \$10 to join a directory and will receive 2 Hours in return (worth \$20). Hundreds of businesses in Ithaca participate -- they can decide when and how many Hours they will accept -- from carpenters to lawyers to restaurants. Businesses or individuals can trade in their Hours for greenbacks at local banks, but at a small discount, thus encouraging residents to spend them in the local economy. This is the basis for all local currencies.

In Berkshire, for the last 2 years, people can walk into a half-dozen banks and exchange federal money for BerkShares: 11 for \$10. Consumers benefit from using them by gaining a 10% shopping discount. The assumption is that merchants will absorb the 10% discount, then use those BerkShares to pay their own bills.

All of this is legal, as long as communities don't produce coins, or print bills that resemble greenbacks. The BerkShares don't have dead presidents on them: Instead, Herman Melville graces the twenties; Normal Rockwell, the fifties.

The reason the federal government tolerates local currencies is because they are known to be ineffectual. They don't compete with the Federal Reserve. Only money put into existence by the Fed is recognized as legal tender, and only that can be used to pay taxes.

In the end, local currencies are a call to community engagement, an answer to the steamroller of large chains and the

damage they often inflict on local identity. Their real benefits, if they exist, are social, instead of economic. Ed Collom, the aforementioned sociologist, has written that local currencies can strengthen community ties and allow people to make friends - something that persists even if, as they often do, the currencies fold up.

Local currencies, however, seem like something from bygone days. Virtual currency, for use in 3-D virtual worlds like Second Life, is more realistic. It too isn't meant to replace the US greenback, and in many ways, it's also an outgrowth of greater community participation, except on a far larger (if virtual) scale.

Virtual worlds, by all accounts, aren't in a recession. If there's one thing people need, it's a dose of unreality. The sales of virtual goods haven't slowed; according to a recent *New York Times* article, executives of these virtual sites attribute this to people spending more time at home. According to the article, the total tab for virtual goods worldwide is \$1.5 billion a year.

Developer Linden Lab's Second Life is the apotheosis of a virtual world. Since it opened in 2003, Second Life has grown to include millions of "residents" from around the world who "inhabit" a vast digital continent. Residents interact with one another, form relationships, work jobs, and trade goods and services using a virtual currency -- Linden dollars -- convertible into real dollars.

Every user first starts by building an Avatar (think VH1's *The Pickup Artist*); most users then rent or buy land to set the foundation for their virtual personas. There are no subprime loans - just regular supply and demand. Second Life's economic statistics are healthy: In-world user hours and the volume of virtual land rented by users are growing. Furthermore, the number of virtual transactions has rebounded to a record high after dropping earlier this year.

I spoke to one user who has been using Second Life for 20 months. (He asked to remain anonymous.) A liberal activist and blogger in his late 40s living in Washington State, he started a group on Second Life for his readers and other politically inclined users. He bought land -- he told me he has spent \$600 to \$700 on it -- and shares a shop with a person who sells virtual dresses. Every week he hosts social events for others in his community; he'll often receive small tips.

He said there have been people who've made millions -- of the real-world kind -- by selling or renting land, earning a truckload of Linden dollars, and then ultimately exchanging them.

Still, for most Internet users, the virtual world remains confusing and foreign. And sometimes weird as hell. The Second Life user I spoke with told me gets a handful of people on his land each night asking 1 of 2 questions: How do I earn money, and how do I meet women. Last month, CNN International reported that a British couple, who originally met on Second Life, were getting a divorce after the wife found her husband having sex with a virtual prostitute.

What the article never addresses is how many Linden dollars the husband paid. Nobody ever said virtual currencies weren't messy.

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