

**Regional money:
A contribution to local business development?**

Monetary Regionalisation –
Local currency systems as catalysts for endogenous regional development

Conference at
Bauhaus Universität Weimar
28 – 29 September 2006

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29 September 2006

Content

1. Categories of private unofficial monies in Germany
2. Local Exchange Trade Systems (LETS) in Germany
3. Regional Money (Regionalwährungen) in Germany

Private unofficial monies in Germany

“Money” issued by enterprises

Transferable vouchers in style of token-money

Money creation as a result of granting bonuses to customers

Exchange volume unknown, probably of minor importance

Claims on Barter Clubs (LETS, commercial BC)

Claims stored on accounts with barter-club

Money creation as a result of rendering services to members

Approx. €15 million exchange volume

Regional Money (“Regionalwährungen”)

Local paper money designed as “Schwundgeld”

Money creation by purchase of euro notes

€200,000 in circulation (June 2006)

Local money

Local Exchange Trade Systems (LETS, Tauschringe) in Germany

● LETS
as of October 2004



LETS (and, thus, local LETS money) can promote local business in principle, if

- the official money in the region...
 - ... is scarce as a medium of exchange (due to hoarding), Seyfang (2000)
 - ... is unstable (due to inflation), Tibbett (1997)
- the (value added) tax system reduces the disposable income by a substantial amount and thus hampers local exchange of goods
- the region is financially excluded from the financial system or infrastructure (e.g. coal mining scrip, Timberlake (1987))

- ⇒ However, it is hard to identify such conditions currently in Germany

- ⇒ In general, the private money must be “better” than the other (official) money in terms of fulfilling the functions as
 - a medium of exchange,
 - unit of account,
 - store of value

Other aspects of LETS and thus LETS money, such as

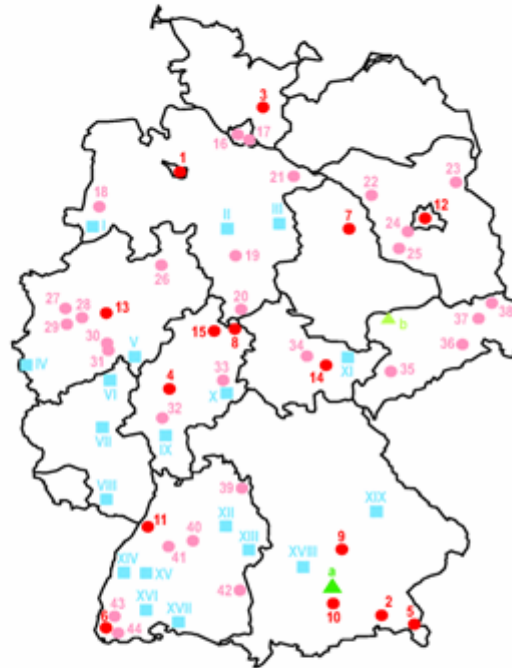
- improving social solidarity,
- creating new exchanges of goods (that would not have occurred without LETS)

.... should not be attributed to its character as money but to the integrating effect of the network itself

Regional money in Germany (as of June 2006)

● Schwundgeld (in circulation)

- 1 Bremen
Roland
October 2001
- 2 Prien
Chiemgauer
1 January 2003
- 3 Bad Oldesloe
Kann Was
1 January 2004
- 4 Gießen
Gießen-Justus
March 2004
- 5 Ainring
Stierltaler
1 April 2004
- 6 Heilsenheim
Markgräfler
July 2004
- 7 Guesen
Ursomtaler
3 October 2004
- 8 Witzzenhausen
Kirschbluete
11 October 2004
- 9 Pfaffenhofen/Im
Hallerbauer
25 November 2004
- 10 Wolfratshausen
Regio im Oberland
1 January 2005
- 11 Karlsruhe
Carlo
23 January 2005
- 12 Berlin
Berliner
3 February 2005
- 13 Hagen
VolmeTaler
8 October 2005
- 14 Reinscheid
Landmark
November 2005
- 15 Kassel
Buergerbluete
23 April 2006



● Schwundgeld (initiative)

- 16 Hamburg
Hansemark
Date unknown
- 17 Hamburg
Alto/Altonaer Krone
Date unknown
- 18 Meppen
Emstaler
Date unknown
- 19 Hildesheim
Braktus
Date unknown
- 20 Goettingen
Augusta
2006
- 21 Hitzacker
Wendlaender
Date unknown
- 22 Neustadt/Dosse
Havel-Taler
Date unknown
- 23 Joachimsthal
Joachimstaler
Date unknown
- 24 Potsdam
Havelbluete
Date unknown
- 25 Belzig
Mittel-Mark
Date unknown
- 26 Bielefeld
Teutotaler
Date unknown
- 27 Duisburg
Duisburg-Justus
Date unknown
- 28 Wuppertal
Bergtaler
Date unknown
- 29 Duesseldorf
Rheingold
Date unknown
- 30 Vollmerhausen
Oberberger
Date unknown
- 31 Wehl-Hennel
Bergische Mark
Date unknown
- 32 Koenigsstein/Ts.
(name unknown)
Date unknown
- 33 Fulda
Fuldaer Mark
Date unknown
- 34 Weimar
REGIO
Date unknown
- 35 Stollberg/Zwoenitz
Stollberger
Erzgebirgsregio
Date unknown
- 36 Dresden
Elbtaler
Date unknown
- 37 Kamenz
Kamenzer
2004 (test)
- 38 Hoyerswerda
Lausitzer
Date unknown
- 39 Creglingen
(name unknown)
Date unknown
- 40 Stuttgart
Roessle
2006
- 41 Calw
Nahgold
Date unknown
- 42 Laupheim
Schwaben-Taler
Date unknown
- 43 Freiburg
Breisgauer /
Fretaler
Date unknown
- 44 Schopfheim
DreyEcker
End of 2006

▲ Regional money without integrated loss (in circulation)

- a Groebenzell
Bapsttaler
27 November 2004

▲ Regional money without integrated loss (initiative)

- b Delitzsch
(name unknown)
Date unknown

■ Further identified regional money initiatives

- | | | | | |
|---|---|--|--|--|
| I Nordhorn
Grafschafter Geld
Date unknown | II Hannover
Leine-Kies
Date unknown | III Gilforn
Allertaler
2006 | IV Aachen
Sandsreuer
Date unknown | V Siegen
Sieg-Taler
Date unknown |
| VI Altenkirchen
BrotEinheit
Date unknown | VII Bell
Hunsruecker
Date unknown | VIII Pirmasens
De Paetzer
Date unknown | IX Darmstadt
(name unknown)
Date unknown | X Eichenzell
Eichenzeller M.A.R.K.
Date unknown |
| XI Hemrsdorf
(name unknown)
2006 | XII Schwabebisch-Hall
Heller
Date unknown | XIII Heidenheim
Brenztaeler
Date unknown | XIV Offenburg
Ortenauer
Date unknown | XV Freudenstadt
Schwarzwaelder Bluete
Date unknown |
| XVI Villingen-Schwenningen
Wandertaler
Date unknown | XVII Ueberlingen
Bodenseer
Date unknown | XVIII Augsburg
LechTaler
Date unknown | XIX Regensburg
(name unknown)
Date unknown | |



Regionalgeld

Entgelt für geleistete Arbeit oder Äquivalent in Landeswährung.
 Als Umlaufsicherung wird eine Gebühr von 1% des Nennwertes pro Monat insgesamt zu Beginn des Jahres erhoben und – wie die Darstellung zeigt – auf 12 Monate verteilt.

Muster 1+++

KANN WAS



Currency in circulation in Germany
(as of May 2006)

	Banknotes ¹	Overnight deposits ¹	Regional money	Sum
In circulation	€ 146 bn	€ 726 bn	Ca. € 200,000	€ 871 bn
Share	16.7 %	83.3 %	0.00002 %	100 %

¹ End-of-month figures as of April 2006 subject to rounding. Banknotes as German contribution to bank notes in circulation issued by the Eurosystem. Overnight deposits held with Monetary Financial Institutions (MFIs) resident in Germany.

1.2. “Schwundgeld” (“Freigeld”) – concept by Silvio Gesell (1862 – 1930)

- Fundamental criticism of the monetary system (Gesell (1911))
- Ordinary goods decay, rust, deteriorate, while money – as a special good – does not
 - ⇒ In the market place, money owners have the *liberty* to decide whether they purchase goods or not, while owners of ordinary goods are *forced* to sell
 - ⇒ Money owners exploit this situation and get a special fee, the interest rate, if they lend money to banks instead of spending it in the goods market
 - ⇒ An artificial deterioration scheme should be imposed on banknotes in order to let money “rust” as do ordinary goods

- ⇒ Gesell suggested a weekly reduction in the value of the banknotes of 1‰ a week (5.2% a year) by attaching stamps to the banknotes in order to keep the money valid as a means of payment



- ⇒ money holders will try to avoid financing the stamps and, consequently, prefer spending the money instead of saving it

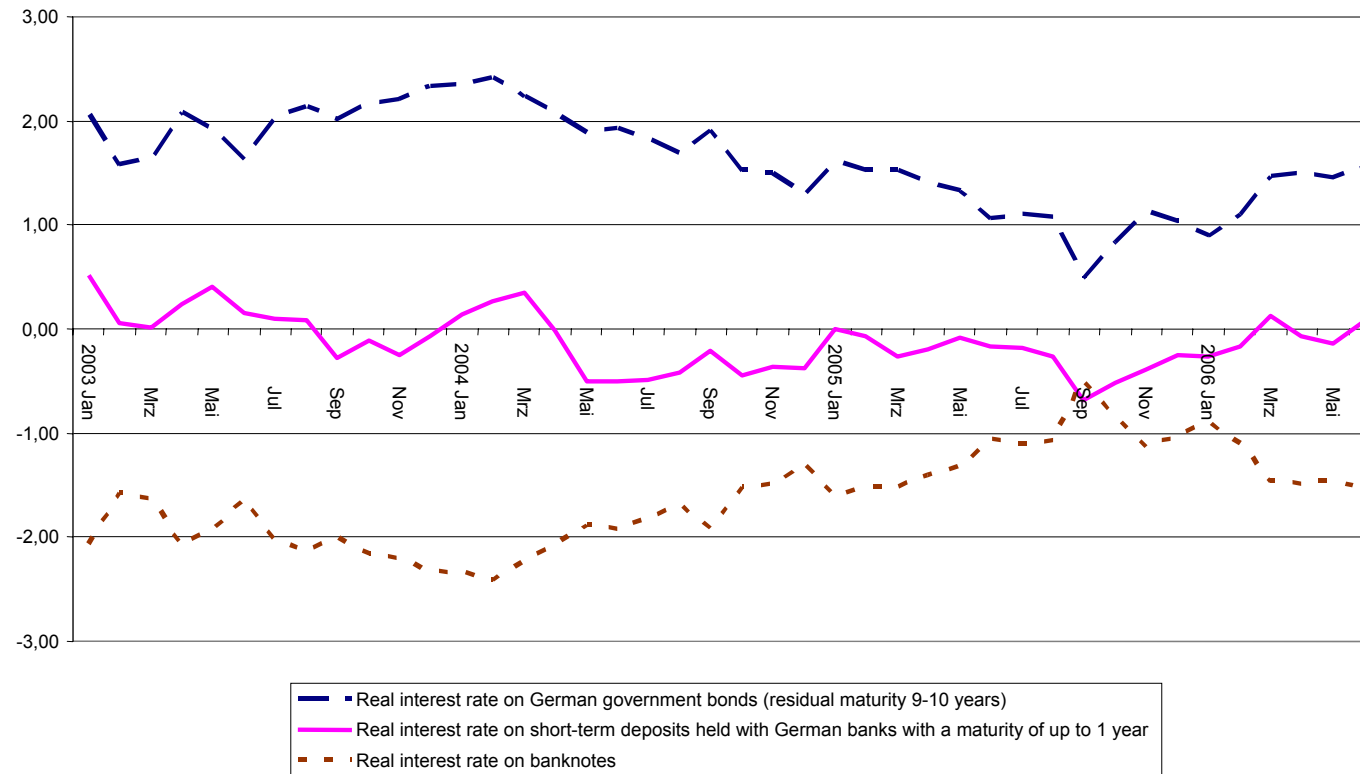
- ⇒ The interest-rate-induced shortage of demand in the goods market will diminish
- ⇒ Exchange of goods, trade, and wealth will increase

In terms of the Fisher equation:

$$\underbrace{\bar{M}}_{\text{Money stock}} \cdot \underbrace{(V \uparrow)}_{\text{Velocity of money}} = \underbrace{\bar{P}}_{\text{Price level}} \cdot \underbrace{(Y_r \uparrow)}_{\text{Real output}}$$

However, Gesell's argumentation suffers heavily from unrealistic assumptions and conclusions.

Real interest rates on banknotes, bank deposits and government bonds



- ⇒ Saving in terms of money holdings makes no sense (at least in the absence of deflation)
- ⇒ No signs for (compound) interest rate-induced shortage of demand in Germany

Schwundgeld (especially stamp scrip) is expensive:

- Periodical expenditures due to financing of stamps:

Mostly 2% of face value per quarter, ie (without compound interest rate effects) 8% per year

- Re-exchange fee (in Euro or new regional money) after expiry of regional notes (1 year)

Mostly 5% of face value

⇒ **Total costs: 13% of face value per year**

It can be shown analytically (Rösl 2006) that high cost of money holdings...

⇒ ...forces people to spend their money more quickly, i.e. velocity of money will increase: $V \uparrow$

⇒ ...leads to a reduction in money holdings:
 $M \downarrow$ (to the amount V increases)

Consequently, $(M) \downarrow \cdot (V) \uparrow = \bar{P} \cdot \bar{Y}_r$

⇒ An increase in the speed of spending the money will be compensated by a matching reduction in money holdings

⇒ **No (lasting) effect on (local) business activities (Y_r) will be generated due to Schwundgeld** (Läufer 2003)

In addition to the general critique of the monetary system, the modern regional money initiatives also intend to....

... keep purchasing power in the region

- by restricting the use of regional money solely to local stores (no supra-regional store chains)
- in order to promote the regional development (“counterweight” to globalisation)

⇒ Such an artificial demand for local goods is equivalent to granting subsidies

- In the long run, subsidies do not help companies to compete in the market

According to economic theory and experience...

- precisely supra-regional trade (guided by comparative cost advantages and division of labour), and
- searching for possibilities to improve the competitiveness of regions (reduction of bureaucracy, for instance)

... are the keys to sustainable economic development of regions

However, regional money (*Regionalwährungen*) can create an advertising effect

- but this is due more to the curiosity value of regional money and not due to the shape of money itself