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Local currency as a means of alleviating the negative impact of the financial crisis on quality of life

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Abstract

The financial crisis of 2008 has not only shaken the financial markets but also undermined basic pillars of developed globalized society. Some economists talk about a coming era of deglobalisation, others about „relocalisation of economy“. Voices questioning the growth of GDP as a tool for solving socio-economic problems became more significant. Liquidity is shifted from the real economy to speculative sector of the financial markets, leading to inflation of the prices of financial assets and on the other hand, the lack of liquidity in the real economy leads to the strengthening importance of alternative means of exchange and to international and local spread of barter trade. There is a trend in development of local monetary systems with elements of regional protectionism. At the time of rapidly developing automation, government maintains employment only through the unproductive state sector financed by large government deficits. The unsustainably growing indebtedness in private, corporate and state level is obvious and apparently the future will bring significant changes in the economic, political and social setting of the society. The aim of the article is to describe the economic and social importance of local currencies in today's rapidly changing society.

Keywords: local currency; crisis, relocalisation;

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1. Introduction

In a situation, where basically all developed democratic societies have ended up with unpayable debts in all sectors of the economy; there is a trend of developing local currency systems. Crisis solution consisting of ongoing efforts to promote economic growth seems to be unworkable and, moreover, does not solve the problem itself, but merely puts off the consequences (Bodorova, 2011). At the opposite pole, there are liberal theories, which propose letting the solving process to the market forces. Nobody would like to bear the negative impact on the general population that such approach would mean for the society, so this approach is politically unacceptable and in terms of human values is hardly justifiable. In the background of this stalemate, major changes in the structure of the real economy driven by technological advances have been going on. The aim of the article is to clarify the role of local currencies in the current situation of developed economies.

2. Automatization of production and services

Technological development has caused firstly the transfer of labor from agriculture to industry and later from industry to services. The broad masses of the population were always able to find a job in the new sector of the economy. In the US agriculture, the most productive sector employs less than one percent of the workforce. During the Industrial Revolution, there was a growth in employment in the industry, but the automatization caused that the labor was progressively released to service sector. In the chart below, we can see diminishing proportion of labor force in agriculture and industry. Nowadays, the industrialized countries gradually automate also in services. USA and other developed countries are little by little becoming "automated society" (Collier, 1999). Automation and productivity, however, has a negative impact on the society in the form of unemployment. The question "Where will be the workforce of service transferred" is becoming more alive. Social impacts of the current trends are apparent.

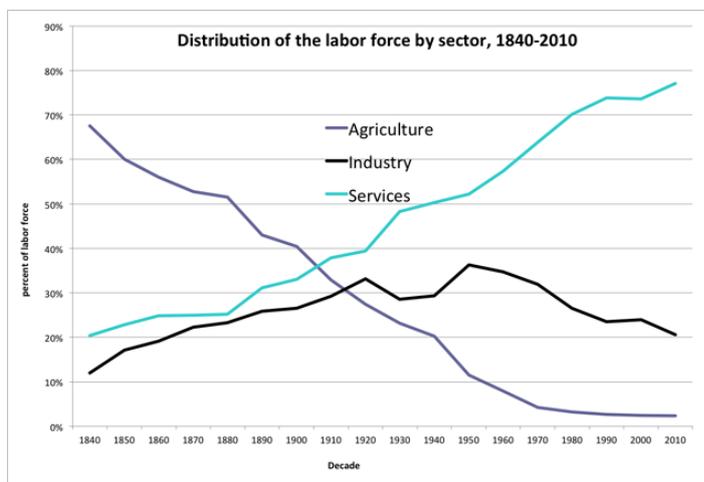


Figure 1. Distribution of the labor force in US by sector, 1840-2010 (L.D. Johnston)

3. Poverty in developed democratic countries

The automatization in production results in a decrease in labor demand, which causes that broad masses of population have a worse standard of living. Poverty is becoming a problem not only in the

developing countries but also in the developed countries. The data from the USA best describe the current trends. An increasingly large number of Americans can barely meet the necessities of life. These individuals are said to be in poverty. The fraction of those in poverty was 15 percent in 2011, up from 12,5 in 2007, the last year for which data is available. At the very bottom, by 2011 the number of American families in extreme poverty – living at least one month of the year on two dollars a day per person or less. The extent of poverty is illustrated by the fraction of Americans depending on government to meet their basic food needs (one in seven); and even then, large numbers of Americans go to bed at least once a month hungry, not because they are on a diet but because they cannot afford food (Stiglitz, 2012).

4. GDP growth

The GDP growth has become a normative of our era. The state, in which our society does not produce and consume more than in previous times, is considered wrong. This kind of state needs to be “fixed”. Political elites, leading economists and also broad masses of population expect nothing less than growth. Without the growth, plenty of depths accumulated in the society seem to be unredeemable, the creation of new workplaces seems to be unreal and social system unsustainable. The bankruptcy of Lehman Brothers has challenged this paradigm of growth. From the beginning of the crisis, many monetary and also fiscal stimuli have been approved to support growth. Nevertheless, none of them has led to the rise of the economy similar to that before crisis. Even the current slow growth of developed economies is caused only by grossing up their indebtedness. In the chart below we can see progressively growing government debt and decreasing growth in the OECD countries.

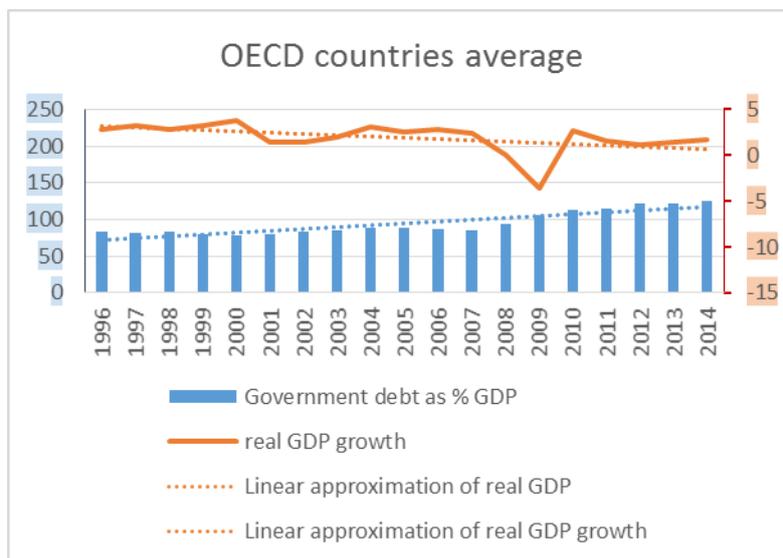


Figure 2. OECD government debt and GDP growth

Stimulus spending economists like Paul Krugman argued, that the government spending would help to reduce unemployment and prop up economic growth until the private sector healed itself and began to spend again. On the other hand, the economists mainly from the Austrian school claim that the state expenditures only worsen the alarming amount of state debt. Supporting the economy by spending borrowed money does not avoid recession, which is a natural phase of the economic cycle (Schiff, 2012). Also the representatives of Keynesian and Austrian school perceive the problem in the framework of current social arrangement. In contrast, there are also economists, who claim that after

the crises ends, the society will not return to its pre-crisis form. They perceive the current state as a transformation process to a completely different form of functioning and arrangement of society. According to (Zeleny, 2009) this process is process of “relocalization of economy”.

5. Imbalance between real and financial economy

Thanks to the monetary stimuli, it is possible to maintain the workplaces despite the ongoing automatization. Strong expansive politics has enormous negative impact in the form of boosting financial sector. For example, a report by the Federal Reserve Bank shows that while aggregate national wealth in the U.S. rose by \$1.49 trillion during the first quarter of 2014, the real economy contracted by 1 percent—according to the Department of Commerce, the decline in GDP was actually higher (2.9 percent). The Financial Times recently noted that household wealth as a whole is up 43 percent since the beginning of economic crisis in 2008, despite the slow or nonexistent recovery in the labor market and an actual decline in median household income, down 7.6 percent since 2008 (Hossein-Zadeh, 2014).

This obvious and growing gap between the rises of financial wealth in the absence of real growth is explained by the asset-price inflation of the past several years—a financial bubble bigger than the one that burst in 2008. Of the \$1.49 trillion increase in the national wealth in the first three months of 2014, some \$361 billion were due to stock price appreciation while \$758 billion were due to real estate inflation. According to figures published by Redfin, a real estate group, from January through April 2014, “sales of the top 1 percent of US homes, those priced at \$1.67 million or more, have risen 21 percent, while sales of the remaining 99 percent of homes have fallen 7.6 percent” (Hossein-Zadeh, 2014).

6. Impact of current state on the formation of local monetary systems

In the state of extreme imbalance and unsustainability of current trends, local currencies are formed in the developed countries. As the mobility of capital in the global economy is very simple, the local economies can end up in the state of shortage of capital. This may have very negative effects in the economic functioning of regions. The local monetary systems are one of the tools to avoid these risks. A parallel monetary system, which would function along the national currency would enable economic operation, even in a reduced level, whatever would happen with the money supply in the “outside world” (Pacione, 1999). The idea of parallel monetary system is not a new one. For example, in the ancient Egypt, barley was used as a means of exchange for domestic transaction and silver for international trade. (Galbraith, 1975) It is natural for the society to create an alternative means of exchange in the years of crisis. The largest system in Europe, Swiss WIR, was invented during the 1934 crisis by 16 businessmen, who knew they would not gain any loans from the banks and they were not able to pay their obligations. The WIR system works also nowadays with an annual turnover of CHF 1,43 billion. The system WIR inspired the system SARDEX, which was created on Sardinia in 2008 with an annual turnover of 31 million EUR in 2015. Another example of alternative systems is barter networks in Argentina. During the crisis of national currency, especially in the years 1997 – 2013, there were created large barter networks like RGT and RTS. At the time of their peak, they provided access to food for hundreds of thousands of Argentines (North, 2007).

7. Non-economic aspects of local currency

The essential part of local currencies is their moral setting. Their goal is mainly the support of local ethical, environmentally and socially sustainable small and medium enterprises. Many participants become part of the monetary systems mainly because of their moral values. For example, Liesch and Birch’s 1994 survey of 371 Australian LETS members examined motivations, benefits and limitations of

LETSsystem participation. The highest scoring motivations were "LETS help to build a stronger community" and "LETS encourage local initiative" (Evans, 2009).

8. Local economies in the process of relocalization

According to Zeleny, there is happening a fundamental transformation of society. The process of relocalization exhibits the following factors:

- Self-service.
- Disintermediation .
- Mass customization .
- High technology
- Knowledge.

Relocalization will lead to more autonomous regional economies. In the more autonomous economies, it will be a natural process to create a local currency. If the region starts to produce large amounts of agricultural or industrial products, the participators will quickly find out that it is unreasonable to use globally fluctuating euro, dollar or other global currency because it would destabilize the economic relations within the region. Of course, the fact that some regions are not autonomous and local does not mean that they cannot become such (Zeleny, 2009).

9. Conclusion

The history shows that the creation of alternative systems of exchange is a natural means of protection against crisis. These systems enable the exchange of products and goods also in the economics which are struggling with the lack of liquidity. This is thanks to their ability to create credits, which are funded by local production. Professor Zeleny does not perceive the creation of local currency systems as a crisis process, i.e. that after the crisis is solved and the economies are stabilized, these systems will vanish. He perceives them as a transformation process, i.e. that the local currencies are natural elements of a relocalization of global economy.

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