



Institute for Sustainable Development in Business

Sustainable economic development brought to you by . . . Tesco?

Along with untold millions of other UK residents I buy my groceries at Tesco, where I recently signed up for a 'Tesco Club Card' that earns redeemable 'Tesco Points' every time I shop. I have only the weakest confidence that the scheme will save me money, but Tesco Points illustrate a larger point about the rise of complementary currencies in the modern economy and their potential for meeting public policy objectives. Complementary currencies may also help explain why valuation problems may arise between the residents of different European regions as the Monetary Union continues to expand.

What are complementary currencies?

A complementary currency is money that people spend and circulate much like national money, but which is issued by an organisation that is not a national government, like a grocery store in this case. Complementary currencies have a limited range of uses compared to national currencies and are sometimes referred to as 'special purpose' monies because they are useful only for particular transactions within a relatively 'closed' social network. These are examples besides Tesco Points:

- Airline companies issue complementary currencies in the form of frequent flyer miles to ensure that customers are loyal to the airline in the long-term, and so the company can track customer spending and travel patterns with greater precision.
- Credit card customers who choose particular cards can earn points toward a charitable donation, a holiday, a car rebate, petrol, DVD rentals, or show tickets, depending on the card. Again the benefit to the company is

improved information on spending patterns, and heightened customer loyalty.

- In parts of rural Africa a mobile phone-based system of money transfer has emerged allowing individuals with no access to a wire transfer service to buy a voucher, equivalent to £10 or another sum in national money, scratch off the panel to get the voucher number, then text the number to a friend in another part of the country. The recipient uses the number to redeem the cash.

Bernard Lietaer in his book *The Future of Money* (2001) uses these examples and others to point out that today large companies regularly invent and issue complementary currencies to suit their own commercial needs. Their motivation is simple: greater customer loyalty means a company can understand purchasing patterns, refine product lines, improve marketing strategies, and ultimately sell more product. But Tesco's problem is that my loyalty is a difficult thing to purchase outright with regular pounds and pennies. What Tesco would like to acquire is actually a particular *behaviour*, a pattern of buying habituated to a particular location.

One way to acquire this behaviour pattern would be to pay me one lump sum to sign a contract of some sort to do all my shopping forevermore at Tesco. Except this would be costly and difficult to enforce, and I would probably not spend my signing bonus with them. So Tesco decided that a more advantageous solution would be to invent a special currency that I can only acquire by shopping at their company, and which I can only redeem in goods from their supermarkets. In the exchange I get a very slight discount on my groceries and they get my repeat patronage. But the important part is the mechanism they invented to be able to buy something that was nebulous, difficult to define, and largely unpurchasable with the national currency. 'Club Points,' frequent flyer miles, and credit card points are all monetary innovations by private companies to acquire things from people that have economic value but are essentially unpurchasable with the regular national currency.

What about complementary currencies to meet public objectives?

There are numerous examples of successful complementary currencies meeting the economic objectives of private companies. But what about examples of currencies meeting public sector objectives? Almost without exception

government agencies and departments have ignored the policy potential of monetary innovations to keep wealth from being drained out of local economies, safeguard local jobs, stimulate greater production, support monetary stability, and purchase public goods and behaviours that cannot be acquired with national money. Local governments could use these currencies to incentivise individual patterns of behaviour that have a collective public benefit but which cannot be easily purchased with national money. What if you could earn points for riding your bicycle to work or taking public transportation instead of driving a car, with the points redeemable as a discount on your next train ticket? Or as a tax credit? Complementary currencies can be used as local economic policy tools that are efficient and in their own way market-based. But to do this the public sector needs to learn how to use them as effectively as Tesco has.

We now compare two complementary currencies designed to deliver public services and meet public sector objectives. One was set up to provide health care support to ageing citizens in Japan whose children live too far away to provide family-based care. The other was started by activists in a small city in the state of New York, USA who wanted to retain jobs and further the city's economic development goals. We suggest reasons why one seems to be thriving and the other lagging in circulation.

A currency for local economic development in Ithaca, New York, USA

The currency in New York was started in the city of Ithaca in the early 1990s by organisers who designed a paper note they decided to call the Ithaca 'Hour' (like the British 'Pound' or the American 'Dollar'). Ithaca Hours were never intended to replace dollars but to complement their circulation (although to this day people considering a move to Ithaca still call the Chamber of Commerce to ask if they should change all their dollars to Hours before they arrive). The organisers believed that a complementary currency would keep local wealth from being siphoned out of the community by big businesses that have little commitment to the economic welfare of the city.



A nearly life-size Ithaca Hour note. One Hour is equivalent to \$10 American dollars; $1/8^{\text{th}}$ of an Hour is equivalent to \$1.25 dollars.

Instead of bearing a recognisable national symbol like the Queen or a bald eagle, the Ithaca Hours currency bears the image of the Spotted Salamander, an animal indigenous to Ithaca and upstate New York. The difference to national money is that Hours embody a kind of value that dollars do not and which is almost exclusive to the residents of Ithaca, New York. That value is dedicated economic support for locally-produced goods and services, and a guarantee that the currency will continuously circulate around the local economy strengthening the enterprises of the people who use it. Supporting local spending and production in Ithaca, New York is not something people in Kansas or London particularly care about, or at least have an immediate economic incentive to care about, which is why the currency is essentially value-less outside the city limits. Despite these differences the currency still does the three things economics text books tell us all money does: it (1) serves as a store of value, (2) allows individuals to exchange goods and services conveniently, and (3) allows economic actors to more accurately measure the value of things.

The shortcoming of Ithaca Hours is that they are so inconvenient to use that they circulate only in very low volumes among only the most dedicated users. Most businesses that accept Hours do not accept 100% Hours for purchases, placing a percentage limit on the amount they will accept in a transaction. So for a 10 dollar dinner the restaurant might accept 6 dollars and the rest in Hours which, somewhat confusingly, happens to be about $3/8^{\text{th}}$ of an Hour. This is a great inconvenience to the buyer because he or she has to pay for 30% of the item in Hours and 70% in dollars, essentially doubling the burden of the transaction. Furthermore the high transaction costs to buying and selling within the Hours economy are only overcome by individuals' belief in supporting the circulation of

wealth in the local economy. There is nothing propelling the circulation of the currency around the local economy other than faith and goodwill that doing so will keep wealth local and meet other public sector objectives. One reason circulation levels of Ithaca Hours remain very low is because spending does not benefit individuals as much as it does the wider regional economy.

A currency to improve healthcare services in Japan

A more successful policy experience with complementary currencies comes from Japan where a system was created to deal with the problem of Japan's burgeoning elderly population. A former Attorney General and Minister of Justice recognized that care for these citizens was placing a great strain on the national social services system and so created an organization to implement a special currency called Hureai Kippu or "Caring Relationship Tickets." Similar to the Time Banks found in the UK, the system allows people to accumulate credit-hours in a national healthcare-time savings account for performing services such as grocery shopping or healthcare duties for the elderly. When that individual with the credits falls ill he or she can draw on their account for health services from another person keen to build credits for themselves. Or, importantly, credits can be transferred to elderly parents or grandparents in a different region of the country where the children do not live and cannot travel easily to give direct care.

Leitaer in his book uses this example to show how a currency system can realistically supplement a national healthcare system by facilitating the exchange of civil society's home care, making it more flexible and efficient. Caring Relationship Tickets address an identified policy problem that the national system was either too large or rigid to address itself, in this case an overburdened healthcare system and geographic immobility of family-based health support for the elderly. Today 300 non-profit organisations and many more citizens participate in the exchange system and it is proving an efficient and popular policy tool in meeting public objectives.

There seem to be at least two reasons why this system has thrived while Hours have lagged: the ease of electronic circulation and the superiority of the service one can purchase with the currency. First, when an individual performs an hour of healthcare that credit is logged electronically as a one-hour credit for the individual. There is no paper money to carry around and no awkward, time-consuming double currency transactions to deal with as in the previous example.

Transactions are also eased by the fact that Hureai Kippu are a kind of special purpose money that can only be used to buy one thing, in contrast to Hours which can be used to buy many. A currency that facilitates the exchange of only one good or service will usually involve fewer complicated transactions than one which facilitates many.

Second, Caring Relationship Tickets are used by a group of people who are defined by their common production and consumption of a particular service, and much less so by their geographic proximity since users may live thousands of kilometres apart. Ithaca Hours users by contrast live and spend the currency almost exclusively within a few square kilometres. Private Japanese companies have helped build the currency's exchange pattern by setting up services to facilitate transfers over long distances, much like the wire transfer services through conventional banks. Furthermore, Leitaer notes that the elderly who take part in the system actually prefer the healthcare provided by people paid in Hureai Kippu over those paid with the national Yen because they experience a higher quality of care in their relationships with these caregivers (Douthwaite 2000).

Factors that seem to make complementary currencies fail and succeed

What can we learn from these two examples of public-objective currency systems, and what would it take for them to succeed to the same degree that Tesco's Club Points have? We suggest two key design features that should be in place.

First, a complementary currency needs to be credible if it is to enjoy the trust of its users. Trust drives its constant spending and turnover, and if one person decides not to accept it because they believe they will not be able to spend it, the currency risks becoming quickly valueless. In this situation people may revert to a mode of economic exchange such as barter which requires less trust but more work for a less accurate, often inconvenient exchange (how many pottery bowls equal how many evenings of babysitting?). The convenience and accuracy of a currency to facilitate these transactions are predicated on people trusting that it will represent the same amount of value to friends, neighbours, and everybody else involved in the circuit of exchange.

Second, it must be convenient to use. One of the reasons Club Points have thrived is that Tesco has embedded their accumulation inside customers'

everyday transactions in national money. Customers do not have to do anything extra to earn the currency besides continuing to shop at Tesco and letting the cashier beep the card on their keychain at every pass through the till. The cashier has even been instructed to *ask* you for your Tesco Card because it is in the company's interests to gather more sales data. The transaction cost has been reduced to the time it takes to remove a keychain from one's pocket and hand it to the cashier. This convenience contrasts sharply with Ithaca Hours where users need to remember to carry around paper Hours notes, shop at stores that accept them, and make a doubly complicated transaction, all of which is rewarded with no benefit to the currency user other than the knowledge that they may have supported the local economy.

Today we favour national money in our daily exchanges because it is more flexible in what it can buy, more convenient to carry and exchange, more trustworthy, and works in lots of cities and social networks. These factors are major determinants of a currency's use and worth, and suggest ways complementary currencies could be improved in a public policy application. Their over all challenge is to embody value that is specific to a social network or region, but not well represented in the flow of a national currency, and whose monetisation would benefit society in some way.

Complementary currencies and the local determination of value

The different kinds of embodied value raise an important question for a rapidly globalising economy, namely, what does it mean when national or supranational currencies are unable to accurately capture and facilitate the exchange of locally-determined value? Let us consider a thought experiment involving two communities. One is a region in the Portuguese Algarve that places high value on maintaining the integrity of local soils since erosion is a major regional problem. The other is the capital city of Estonia which places high value on the preservation of local churches representing local religious heritage. Each community would pay a large number of Euros to keep either their soils from eroding or their churches from being demolished, but we cannot expect the residents of the Algarve to care about preserving Estonian Churches to the same degree as the Estonians. Nor can we expect the Estonians to care about preserving Portuguese soils to the same degree as the Portuguese. What does it mean that the values these communities place on their particular resources are locally-determined?

Now pretend a Portuguese property developer wants to build a large hotel next to a 500 year old church in the Estonian capital, Tallinn. The Estonian locals demand a high price in Euros for the land to compensate for the cost of the loss of their cultural heritage. But the foreign developer cannot see how the land could possibly be worth the asking price because he is unfamiliar with Estonian cultural history and its value to local residents, and as an outsider does not consider these things important. The developer is assessing the worth of the land according to international criteria and cannot see how the land could possibly be worth the asking price. The consequence may be that the deal falls through because the two parties are negotiating from standpoints that differ too greatly over what is valuable and what is not. It may be that the Euro has been excessively abstracted away from its original definition of value so that now it is exchanged roughshod in spite the regional differences.

We should acknowledge here that national money probably expresses the vast majority of value circulated in the global economy, but not all value. That is, all pounds and dollars express economic value, but not all economic value is expressed in pounds and dollars. Friendships and personal networks have economic value. One's reputation can have economic value. Skills and abilities have potential economic value before they are exchanged with an employer for money. Regional cultural histories and local soil quality also have economic value. One of the main points about complementary currencies is that they capture and exchange value lying outside the national currency system that is inadequately expressed in dollars and pounds. Corporations have done it, communities are doing it, and now local and regional governments should consider how they could do it for the public good.

One main observation from this discussion about the usefulness of complementary currencies may have nothing to do with public or private applications at all but rather with, ironically, international trade. The results of the thought experiment combined with the two currency systems discussed here suggest that the greater the geographic territory a currency comes to occupy – subsuming therefore an ever greater diversity of regional communities --, the more sub-optimal is the currency's capacity to efficiently exchange value among economic agents with differing locally-determined value systems. This means that while trade ministers continue to negotiate agreements to liberalise trade between countries, in the name of economic efficiency and development, they are doing so in the language of an official monetized value systems that does not

acknowledge the locally-determined value of diverse cities and regions. It may be that these policy efforts to improve the efficiency of production and trade actually reinforce a homogenous monetary measure for assessing value that, paradoxically, is increasingly poor at measuring and embodying locally-determined value that falls outside the sphere of national currencies.

Leitaer, B. (2001) The Future of Money: Creating new wealth, work and a wiser world. Century: London.

Douthaite, R. (2000) The Ecology of Money. Schumacher Briefing Number 4. Chelsea Green for the Schumacher Society.

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