Building Local Resilience: The Emergence of the UK Transition Currencies

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Abstract

This paper examines the emergence of a new type of local currency – 'Transition Currencies' - in the United Kingdom over the past 4 years. The Transition Currency 'model', shared by the initial four schemes, is explained and the theoretical roots of the schemes reviewed. The paper goes on to examine the success and limitations of the currencies and reflects on potential future developments and how the Transition currencies might upscale and deliver additional social, economic and environmental objectives.

Introduction

One of the most interesting developments in the UK complementary currency movement over the past 4 years has been the emergence of local paper currency schemes in 'Transition towns'. Following Totnes in 2007, the towns of Lewes, Stroud and Brixton in South London have all successfully launched local 'pounds', the usage of which is restricted to independent businesses in their respective areas. Broadly speaking, the goal of the currencies is to help re-localise production and consumption and build economic 'resilience', a key tenet of the Transition movement. This paper sets the Transition currencies in context and reviews their progress so far. [1]

The Transition Network

The Transition Network is a global grassroots movement of communities seeking to create greater local resilience and well-being in the face of the twin threats of climate change and peak oil. Transition thinking draws inspiration from permaculture and ecology as the basis for reimagining how settlements and local economies might be able to adapt the shocks these two phenomenon will inevitably create without creating major social and economic dislocation. The notion of resilience is key to Transition thinking, defined as:

...the capacity of a system to absorb disturbance and reorganise while undergoing change, so as to still retain essentially the same function, structure, identity and feedbacks (Walker et al, 2004)

To create greater resilience, Transition argues for the re-localisation of many aspects of production and consumption, arguing that losses in narrowly defined efficiencies of scale are made up for in terms of reduced vulnerability to shocks because of greater diversity, just as in nature. Transition also involves collectively imagining a different low-carbon future for the area and the creation of an energy descent plan (EDAP).

The Transition movement is highly decentralised and non-hierarchical in structure and culture. Schemes are almost all not-for-profit and mainly dependent on volunteer labour. The emphasis is very much open active local participation and identity, positivity, innovation, creativity and collective action. There are currently around 270 active transition communities across the world, mainly in English-speaking countries.[2]

Transition Local Currencies

Local Complementary currencies have emerged as initiatives from Transition communities across England, normally from within transition groups' 'business' or 'economy' sub-groups. Three of the transition currencies are in towns in more rural areas - Totnes and Stroud in the South West of England and Lewes in the South East. The fourth, the Brixton Pound, is in inner-city London. All four of the schemes previously had active Local Exchange Trading Schemes (LETS) in the 1980s or 1990s and in some cases the same individuals who run the LETS schemes are involved. There are also a number of 'nascent' Transition currencies in the planning stages, including in Bristol, Canterbury and Camden. The schemes share the following broad goals:

- To enhance local economic resilience through encouraging more local production and consumption and limiting the 'leakage' of money from the local economy
- support and protect local independent businesses [3] which:
    - protects jobs and livelihoods and
    - maintains the diversity and identity of the local area
- Create stronger connections between local people and businesses, boosting social capital and cohesion.
- Stimulate thinking and discussion about how money works and how local economies function and could be made more sustainable
- Promote the area, creating pride for its citizens, a sense of independence and attracting tourists
- Encouraging a self-help model of exchange and mutual support
- Reduce carbon emissions through reducing the transportation of products form long distances.

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The hard currency model adopted by all four existing transition initiatives is broadly similar:

- Notes backed 1 to 1 against UK sterling, with a one- or two- year validity
- Notes in denominations of £1, £5, £10 (and in the case of Brixton £20 and Lewes £21) with multiple security features and featuring attractive and original designs reflecting local celebrities or places
- Currency can be accepted only by 'independent' (broadly defined) local businesses in (part-) payment for any goods or services
- Currency is 'sold' in to circulation via selected participating businesses (Stroud charges a 3% purchase fee which is donated to local charities) or given as change
- Currency can be exchanged back in to UK sterling at a 1 to 1 rate at selected exchange points (Stroud only allows registered traders to redeem notes and has a 5% redemption fee)
- Businesses are encouraged to offer discounts when customers use the currency to pay for goods, but attempts by Totnes and Lewes to introduce a compulsory discount were abandoned due to business dissatisfaction.
- Each scheme has a website and leaflet listing all participating businesses and information as to how the scheme works

The Stroud Pound has modelled itself more closely on the Chiemgauer complementary currency based in Germany (Gelleri, 2009). It has a 'demurrage' feature on the note requiring users to pay a 3% fee and have the note stamped every six months to maintain its value, the aim of which is to further increase the circulation of the note. The Chiemgauer was itself inspired by the writings of Silvio Gesell and the highly successful 'Worgl' currency that helped rebuild the town of the same name in Austria in the 1930s during the Great Depression (Gesell 1958).

Stroud also charges a 5% redemption fee and an annual membership fee for users and businesses who join the Stroud Pound cooperative, a percentage of which is donated to a local charity of the consumers' choice. None of the other three currencies operate fee based membership schemes. Both Brixton and Lewes have a more informal membership scheme with members receiving a monthly newsletter updating them on the latest news.

In terms of organisational structure, Lewes and Brixton currency groups have both opted for the Community Interest Company (CIC) limited by guarantee status. The CIC model is seen to provide some of the advantages of both charitable and limited company status as it allows organisations to qualify for charitable donations but also allows them to make a surplus as long as that surplus is invested solely in the community. The CIC model also provides Directors with limited liability. Totnes started the process of registering as an Industrial and Provident Society but ran in to issues with the Financial Services Authority. Stroud, again following the Chiemgauer, is a cooperative and members are charged an annual fee. None of the other three currencies operate fee based membership schemes.

Theoretical Roots

The intellectual inspiration for the Transition currencies can be found in the work of authors such as Bernard Lietaer and Richard Douthwaite, who wrote on the need for local currencies to support local economies in the face of globalisation (Douthwaite, 1996; Douthwaite, 2000; Lietaer, 2001). Rob Hopkins, one of the founders of the Totnes Pound, was inspired by a talk he heard by Bernard Lietaer as part of a short course on 'The Future of Money' held at Schumacher College in 2006 in Totnes, Devon where Lietaer specifically referenced the U.S. Berkshares local currency. The Berkshares currency, based in Berkshire in Massachusetts in the U.S. was founded in 2006 by the EF Schumacher Society, a think-tank promoting ecological economics.

The economic arguments for the Transition currencies are often justified by reference to the idea of the 'local multiplier'. This idea is based upon Richard Kahn's (and later Keynes') notion of the spending multiplier effect at the national level of the economy, whereby an increase in government spending, if translated in to higher levels of consumption by individuals, can have a proportionately greater effect on total output or aggregate demand (Keynes 1936; Hahn 1931). As the transition currencies cannot be 'banked', there is greater incentive to circulate them locally, enhancing local demand and creating a multiplier effect within a defined 'local' area.

Within the UK the concept of the 'local multiplier' has been developed by *nef* (the new economics foundation), the London-based 'think-and-do-tank' which has, through its research and publications, developed the argument that local economies as prone to 'leakage' through taxes, external contractors and the non-local supply chains and shareholders of national and international chain stores. (Ward and Lewis 2002). In contrast, small independent shops are more likely to employ local firms for these kind of services and spend any profits locally (Sacks 2002). *nef* conducted a study in 2002 which suggested only around 10-12 pence of every pound spent in supermarket chains remained within the local economy, whilst a more recent study of the West Michigan Economy in the U.S. concluded that if residents of the area were to redirect 10 percent of their total spending from chains to locally owned businesses, the result would be $140 million in new economic activity for the region, including 1,600 new jobs and $53 million in additional payroll (Sacks, 2002; Civic Economics, 2007).

Following this line of argument, the Transition currencies can be seen as promoting the 'medium of exchange' function of money at the expense of the 'store of value' function. The tension between the successful fulfilment of these two functions of money within a single unit of account (the third function) is widely seen amongst monetary theorists as one of the main causes of instability in the modern fiat-based monetary system (Dodd 1994; Douthwaite 1999).

Key Challenges [5]

The Transition currencies major success so far has been as awareness-raising tools. They have generated astonishing media coverage and captured the public imagination locally, nationally and internationally. No doubt the colourful and highly original note-design has played a major part in this. The Director of Brixton Town Centre, for example, said of the Brixton Pound that it had 'done more for Brixton's reputation than anything since the

Table 1: Background information on the Transition currencies (Jan 2010)

	Launch	£ In Circulation [4]	No. Businesses	Population
Totnes	March 2007	c.5000	c.70 (2008)	8,000
Lewes	September 2008 (first issue), July 2009, (2nd issue)	c.15,000 (2nd issuance)	c.130	16,000
Stroud	September 2009	4,329	37	20,000
Brixton	September 2009	30,000	140	65,000

lighting of Electric Avenue in 1900'. The London Borough of Lambeth, where Brixton is based, have estimated the value of the scheme in terms of positive media coverage to be around £100,000. There is little doubt of the impact the schemes have had in terms of creating a sense of community pride and discussion in the four areas. However, a number of challenges have emerged for the schemes and the existing, UK sterling-backed, model.

a) Incentives for consumers and businesses

Perhaps the greatest challenge for the Transition currencies is that the existing model is dependent, broadly speaking, upon non-economic incentives. As the currency exchanges at 1 to 1 with UK sterling and none of the schemes have been successful in implementing compulsory discounts, consumers main motivation for using the currency is a belief in the ethical principles of the initiative. This may restrict the use of the currency to the small proportion of the population who share the schemes' values. Even with this population group, there is the danger of the novelty value wearing off and the inconvenience of carrying two paper currencies (and of using a paper currency rather than electronic payment for larger purchases) outweighing this ethical motivation. Accessing the currency also involves two transactions in most cases – withdrawing UK sterling from a machine and then purchasing the local currency from an issuing point. Lack of knowledge about the location of issuing points is often quoted as a reason why users do not use the Transition currencies more often.

For businesses, the main economic incentive for accepting the currency is the free marketing which it is hoped will lead to an increase in footfall. However, if the main users of the currency are customers who already hold the values advocated by the scheme, businesses may feel the increased footfall effect is negligible. [6]

The cost to businesses of dealing with two currencies is also arguably greater than for consumers. Businesses cannot, at present, bank the local currencies, hence they must spend the currency on supplies, offer it as payment to staff, give it as change or use it personally if they are to keep it in circulation. Whilst this could be seen as advantage in terms of the goals of the scheme to encourage local circulation of money, some of the transition schemes have had experience of businesses leaving the scheme because they are unable to spend the currency and/or see changing it back to UK sterling as a) a cost and b) evidence that the scheme is not working adequately.

b) Social justice challenges

Related to the above, there are questions as to how the Transition currencies support people or businesses facing financial exclusion or economic hardship, an issue that has come to the surface significantly in the past two years with the recession. The hard currency model does not create any kind of additional liquidity since every note must be exchanged for UK sterling and so far the schemes have been unable to develop a loan mechanism. Nor does it enable any additional or alternative forms of exchange or exploit underutilized capacities within communities. This contrasts, for example, with currencies which have non-monetary backing, such as time-backed currency systems, which are able to involve people in exchanges who are currently excluded by the market.

The transition model does create a UK sterling backing or 'asset' equivalent in size to the amount sold and exploiting this in some way appears as one potential way of creating additional liquidity, e.g. through a low or zero interest loan scheme. However, any kind of loan scheme would require significant administrative and financial infrastructure and so far the Transition schemes have been unable to find willing partners, although both high street banks and credit unions have been involved in discussions about potential collaboration. This contrasts with the United States, where the Berkshares model has the support of 5 regional banks and 12 branches and the Chiemgauer in Germany which also has regional banking support.

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c) Financial sustainability

The Transition currencies, as with the other transition initiatives, were set up as not-for-profit schemes and have been dependent mainly on unpaid labour and one off donations. They have been successful in attracting small financial or in-kind investments from local councils and businesses to pay for events, set-up costs, marketing and printing of the notes. Both Lewes and Brixton were successful in raising sponsorship funds from local businesses in return for featuring their business logos prominently on their marketing materials. Brixton and Lewes have also recently been successful in attracting part-time funding for a project manager from, respectively, the Labour government's Future Jobs Fund (now dropped by the Coalition government) and from a Charitable Trust. One way in which money has been and will continue to be generated for the schemes is through 'leakage' - unredeemed notes upon the completion of the validity period.

Nevertheless, 'volunteer fatigue' remains a major challenge for the Transition currencies given the dependence on unpaid labour for much of the promotional and business engagement work. Stroud is the only initiative to have built in to its model a facility for generating funding – through membership and redemption fees – but at present this does not generate enough funding to pay for labour time.

d) Measurement and Evaluation

One major drawback in using paper notes is it that not possible to track how the currency is being used and how many notes are actually in circulation. The schemes have thus been reliant on simple balance of accounts figures on issuance and redemption and ad hoc and anecdotal feedback from businesses and consumers about actual usage. There is a suspicion that a considerable proportion of the notes sold are for novelty/souvenir purposes rather than purposes of normal exchange. Evidence for this comes from both a slow down in issuance after an initial 'honeymoon' period and the non-redemption percentage for Lewes following the 1-year pilot (admittedly featuring just £1 issuance) which was over 50%. In terms of attracting further public or charitable sector funding, evidence of impact will be important for the schemes.

e) Under-developed banking infrastructure and support

The Transition currencies in the UK have struggled to find support from either the mainstream commercial banking or community finance sectors. This places significant additional burden on the volunteers involved to carry out administration, reconciliation and accounting functions. It also limits the potential of developing local currency bank account facilities or loan initiatives, both of which might be welcomed by the small businesses signed up the schemes, many of whom struggle to access credit from commercial banks.

It may be that the UK's banking system, which has seen the gradual disappearance of local and regional banks and a reduction in branches following the financial deregulation of the 1980s and 1990s (Leyshon and Signoretta

2008) is poorly suited to supporting local currencies. The situation in the UK is in strong contrast the United States and many parts of Europe, where there remains a more vibrant local and regional banking infrastructure. The Berkshares local currency in the U.S. for example benefits from the involvement of thirteen branches of five local banks which carry out the bulk of administration and enable the 5% discount to be more easily executed. The Chiemgauer and other Regiogeld currencies also have had more success in attracting administrative support from banks.

f) Challenges of scale and demand

The economic impact of the Transition currencies, in terms of actual turnover in the businesses that use them and in terms of their local areas' overall economies, remains very small (see table 1). If the currencies are to achieve their aim of genuinely enhancing the economic resilience of their communities, they will need to find ways of increasing the volume of circulation. Options here could include moving beyond the local to the regional scale, to bring in more potential suppliers to become involved and persuading a large organisation such as a Local Authority or Primary Care Trust to accept the currency as payment. This would give businesses a simple way of moving the currency on. Bristol Transition are currently exploring the options for a regional currency scheme that would incorporate the city but also the rural areas around it, broadly defined in terms of the 'bio-region' (Transition Bristol 2010).

Looking to the future

Despite these challenges, there remains considerable optimism about the future of the Transition currencies and a number of areas apart from the four existing schemes are developing their own models. Key areas for further research and exploration to improve the effectiveness of the Transition currencies are as follows:

1. The creation of electronic payment and trading systems so that the currency is not limited to cash transactions. This would have a number of advantages including:
    - Much better information on how the currency is circulating amongst businesses and users and thus what interventions would be most useful in enhancing the scheme
    - Opportunities to include the financially excluded or those who cannot get access to a bank account, for example through using mobile phones to store credits [7]
2. An income to the currency management body built into the system to sustain and develop it. Again the introduction of electronic payments could make this considerably easier – merchants and customers are quite used to paying a 3% transaction fee for using credit cards for example.
3. The involvement of a financial infrastructure body of some kind to allow users and businesses to hold transition currency bank accounts and conduct much of the administration and reconciliation work involved in managing a currency scheme.
4. The involvement of savings and investment institutions providing local finance, possibly in part-payment through the currency, to sustainable businesses and financially excluded individuals. A particular question would be how the UK sterling backing reserves of the local currencies could be utilised to provide community finance for local businesses or financially excluded residents of the area.
5. The introduction of some form of Business-to-business mutual credit trading system or commercial barter system to incentivise businesses who are involved in the scheme to trade with each other and to give them additional, non-interest bearing credit lines. This should also incentivise more local sourcing of goods and services and increase regional economic resilience – studies suggest the Swiss WIR mutual credit scheme has counter-cyclical properties, for example (Stodder 2005).
6. The possibility of integrating social currencies – such as time banking or LETS – in to the hard currency models, tapping in to people's underutilized skills and abilities

nef (the new economics foundation) and the Transition Network have recently embarked on a project to conduct scoping research on how to enhance the transition currencies – Transition Currencies 2.0 - which will be examining a number of the above areas.

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Endnotes

[1] Further information about the emergence of the Transition Currencies can be found in Pete North's recent book, 'Local Money', published by the Transition network in June 2010.

[2] For more information on the history and aims of Transition, see: http://transitiontowns.org and Rob Hopkins book, The Transition Handbook: from oil dependency to local resilience, (Green Books 2008).

[3] According to the Federation of Small Businesses, 2000 local shops are closing each year – see Trade Local Manifesto, http://www.fsb.org.uk/default.aspx?id=0&loc=keeptradelocal. Despite this, small businesses account for the majority of private sector jobs in the UK: 59.2% in 2007, around 13.5 million jobs overall

[4] N.b. this figure is the amount of currency actually in circulation rather than the total amount of notes issued.

[5] It should be noted that accurate data on the impact of Transition Currencies is limited as there has been very few robust empirical studies of the schemes.

[6] A recent study of the Lewes Pound found that 70% of traders felt the scheme had made little difference to footfall. See Graugard, J, (2009) 'A mixed-method case study of the Lewes Pound and its capacity to build resilience in the community of Lewes', unpublished MA thesis, University of East Anglia.

7 The M-pesa scheme in Kenya allows financial payments using mobile phones and has helped revolutionize the farming trade. See http://www.safaricom.co.ke/index.php?id=745

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