

# Community Currency and NPOs—A Model for Solving Social Issues in the 21<sup>st</sup> Century

by Akio Doteuchi  
Social Development Research Group

## Introduction

A quiet boom is spreading across Japan. In over 100 communities, community currency—also known as community money or local currency—has been introduced in trial or working projects. This paper examines the growing interest in community currencies, and explores the possibilities for their use by nonprofit organizations (NPO) as a model for solving social issues in the 21<sup>st</sup> century.

## 1. Community Currency

Unlike official currencies such as the yen or dollar, community currency (*chiiki tsuka*) circulates within a specific community or group. The term means different things to different people. For example, a local community or group can be defined as a geographic area, or as a virtual entity that lives on a network. In addition, the term “currency” as used here differs slightly from the common conception of money.

Moreover, while community usually refers to a limited geographic area such as the neighborhood in which we live, it can also define a larger region encompassing several countries, such as the Asia-Oceania region or Middle East region. Thus some people might be inclined to call the euro, which began circulating among twelve European countries in January 2002, a kind of local or regional currency.

In addition, community is not necessarily defined only as a geographic area. Communities can also exist in virtual networks such as the Internet, where people with shared interests or values come together to interact.

Moreover, while the term currency tends to be associated with the money used in daily life, this is not necessarily what is meant by community currency. Some community currencies have no paper notes, and instead refer to a medium for exchanging goods and services.

With no clear consensus on the definition of community currency, we define it here simply as “a medium for exchanging goods and services within a community,” with the term community not restricted geographically, but at the same time not on a level involving national governments.

## **2. Types of Community Currency**

Community currency can be classified depending on the objectives for which it was introduced. While an accurate classification is difficult, we can distinguish between a non-market (volunteer) economy and market economy based on the types of goods and services the currency is being used to exchange. In addition, focusing on it as a medium for exchanging value, there are four categories of paper money, passbook, check, and electronic money. It is also possible to classify depending on whether the domain of circulation is a geographic community or a theme-oriented community.

### **(1) Paper Currency**

Local paper currency circulates in the same way as ordinary money. Below we introduce the Ithica HOUR from Ithica, New York.

The Ithica HOUR currency was introduced in 1991 to stimulate the local economy. The currency unit is the HOUR, which is worth an hour of labor or ten dollars. It is available in two, one, one-half, one-fourth, and one-eighth HOUR notes, which are issued and controlled by a nonprofit organization called the Ithica HOURS Committee.

Residents register with the committee, and can receive two HOURS for listing their goods or services in the publication *Ithica Money*. The catalog lists over 3,000 types of services as well as thousands of goods, and transactions are conducted directly between buyer and seller. In addition, the currency is accepted at 400 stores, and participating stores can also pay wages in the local currency.

Since 1991, over 50,000 HOURS have been issued, and even non-members can shop using the currency. As with legal currency, purchases are also subject to taxes, and counterfeiting is punishable by law.

In Japan, a well known local paper currency is the *ohmi* in Kusatsu City, Shiga prefecture, which is accepted by businesses including taxi companies and movie theaters.

## **(2) LETS (Local Exchange Trading System)**

LETS was introduced in 1983 in Vancouver, Canada to boost the autonomy of the local economy. It has spread to Europe, and is also known as an “exchange ring.”

Instead of using paper currency, participants maintain accounts, and either offer or ask for goods or services in an exchange directory. When an exchange is made, the supplier’s account is credited, and the receiver’s is debited. For the group as a whole, credits and debits cancel out, and the group’s balance is always zero-sum.

The system is self-managed and founded on the mutual trust between members, who conduct transactions on their own. New participants can begin transacting without initially owning points. While not all systems have a system manager, some form of accurate record keeping is essential for the system to work.

A well known example in Japan is the Peanuts system in Chiba City. Approximately ten percent of all payments made at local stores are in the community currency.

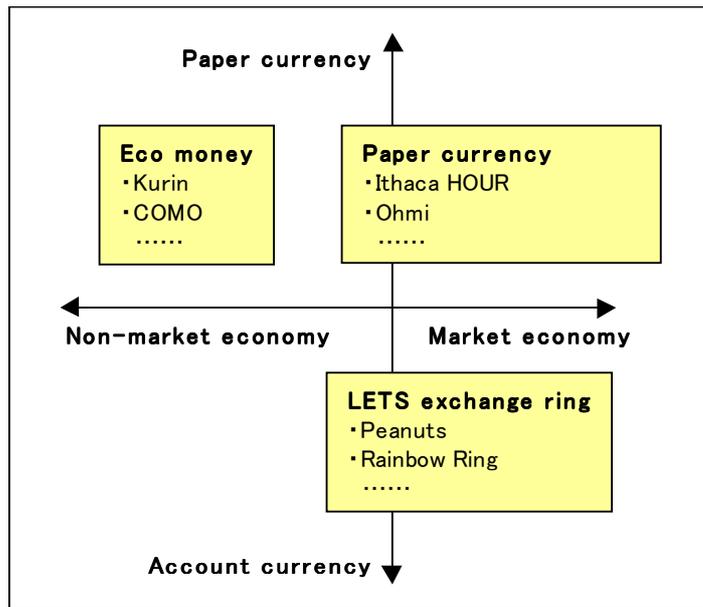
## **(3) Eco-Money**

The most prominent characteristic of eco-money is that it circulates only in non-market economy areas such as the environment, welfare, education, and culture, in sharp contrast to paper currency and LETS, which can also circulate in the market economy. Participants receive eco-money at the start of transactions, and offer services on the service menu. Transactions can take place directly between members, or through coordinators who perform a matching function.

Eco-money has an expiration date, after which the money becomes worthless. The currency unit is one hour of services, and transaction prices are negotiated. It cannot be converted into cash or earn interest, nor can it be used to purchase goods and services in local stores or other market place.

A well known example in Japan is the *kurin* in Kuriyama, Hokkaido, which is being promoted by the whole town.

**Figure 1 Classification of Community Currency**



### 3. Historical Background

Community currency first gained prominence in the Great Depression of the 1930s. In the U.S., due to massive unemployment and a bankrupt federal government, money failed to circulate due to hoarding. To help reinvigorate local economies, community currencies sprang up across the country.

Similar developments were underway in Europe as well. For example, in 1932 the Austrian parish of Woergl started paying employees with work confirmation notes. The notes successfully circulated and revived the local economy. A key feature of this and other local currencies at the time was that they automatically depreciated unless a stamp was purchased and affixed to the note every month, thus encouraging people to spend rather than hoard money. Despite the success of the initiative, which was based on the concept of unhoardable money by the German economist Silvio Gesell (1862-1930), it was cancelled in less than one year by the central bank of Austria.

Since the 1990s, globalization has set in motion massive money flows seeking greater investment returns throughout the world. With advances in financial engineering such as derivatives, the money economy has grown to dwarf the real economy by an order of magnitude. As a result, wealth has become further concentrated, widening the disparity between wealth and poverty. In addition, globalization can disrupt economies such as in the Asian financial crisis in 1997 and recent economic turmoil in Argentina.

In Japan, the recent boom in community currency was triggered by a television program called *Ende's Last Message* that aired in May 1999. The program argued that the speculative use of money had caused a variety of evils, and urged viewers to reexamine the true meaning of money. After the program aired, many communities initiated trial projects to introduce community currencies, and the number of communities looking into such projects continues to grow rapidly.

What explains the sudden popularity of community currency? When the bubble economy collapsed in the early 1990s, enthusiasm over money games wilted. In addition, urbanization and aging have been undermining communities, raising strong concerns about the ultra-aged society that looms ahead. Under these conditions, people have begun to crave the stability and security that comes from a firmly rooted local economy and community.

#### **4. Characteristics of Community Currency**

Three characteristics distinguish community currency from official currency. First, community currency is used only within a particular community (or group). Thus the currency and its economic impact stay inside the community. While regional promotion coupons issued by the government in 1998 also stayed in the community, they could not be repeatedly used and re-circulated like community currency.

Second, community currency earns zero or negative interest, and can have an expiration date. Originally, money was a means of exchanging goods and services; but when it started to earn interest, money came to be used for savings and capital formation. Since community currency does not earn interest, it is not saved, but instead stimulates consumption and circulation.

Third, community currency is widely used outside of the market economy, particularly for NPO and volunteer activities in areas such as education and welfare, which tend to be incompatible with market transactions. Community currency is not merely a way to conduct business transactions in a paper money economy, but a means of encouraging two-way communication and interaction so as to invigorate communities.

## **5. Objectives of Introducing Community Currency**

### **(1) Vitalization of the Local Economy**

As economic globalization capital flows in search of higher investment returns, disparities between local economies grow, causing numerous distortions. Main shopping districts in cities across Japan are being shuttered, while communities are losing jobs and their economies are struggling. To protect local jobs and make economies more self-reliant, communities need to stimulate the circulation of their local economy.

A characteristic of community currency is that since it has value only when used, the currency circulates very readily in the community. And as it circulates, community currency stimulates consumption and creates an economic impact that stays inside the community, making the local economy more independent.

### **(2) Vitalization of the Community**

Trends such as urbanization, aging, and the increase in one-person households are altering the population and household structure. Important functions that communities once performed such as mutual aid, socialization, and commerce have declined at a rapid pace. For communities to offer a sense of security in the future, new forms of personal relationships are needed to replace conventional ties based on hometown and kinship.

Backed by the confidence of local residents, community currency is a medium for exchanging goods and services in a wide range of non-market areas such as education, welfare, and the environment, generating shared values and social interactions in the process. As such, it is a tool for communication that helps build a sense of community through the exchange of goods and services and personal interactions.

### **(3) Complement to the Paper Currency Economy**

The television program *Ende's Last Message* portrayed capitalism and the pursuit of economic growth as being overly obsessed with efficiency and time savings, and prompted viewers to question the fundamental meaning of money.

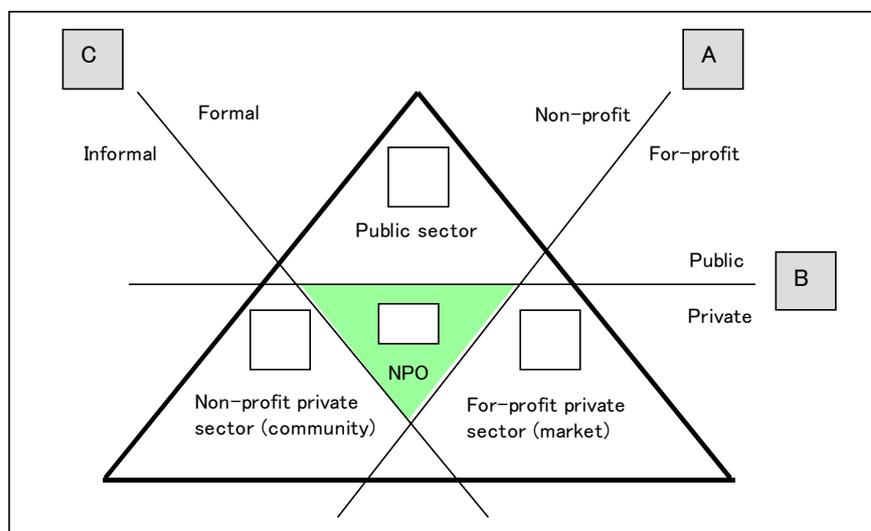
Currently in global financial markets, massive funds are moving around the world in search of better investment returns. While creating huge wealth for some, it also carries the risk of aggravating the North-South problem, sparking currency crises, and ruining people's lives. Community currency, which has neither interest nor credit creation, represents a new

alternative as a kind of safety net that complements the paper currency economy.

## 6. NPOs as a Model for Solving Issues in the 21<sup>st</sup> Century

Given the often cited shortcomings of government and the markets, the diverse needs of a maturing society cannot be fully met by the conventional public sector and private for-profit sector (sectors I and II in Figure 2). Since the NPO Law (Law to Promote Specific Nonprofit Activities) was established in 1998, 6,198 nonprofit organizations have been certified as of March 2002. This marks a formal start to the shift from the private non-profit sector (sector III) toward the NPO sector (sector IV).

**Figure 2 Position of the NPO Sector**



Furthermore, tax incentives established in October 2001 make contributions to certified NPOs tax exempt for individuals and tax deductible for corporations. However, compared to the U.S., which has approximately 1.2 million NPOs employing over ten million people, Japan's NPO sector lags far behind in both quality and size.

In the future, as government becomes even less capable of solving social issues, the third sector (NPOs and private nonprofit sector) can take the initiative by creating jobs and taking over services that the public sector cannot perform efficiently, thereby reducing the cost of social policies.

In other words, the NPO sector's emergence points to the formation of a "public society" centered not around government but the people. The Japan NPO Center suggests that redefining NPO as "new public organization" would generate a strangely persuasive

argument in Japan for the role of NPOs (*NPO no Hiroba*, no. 16, January 2001). In the new public society, NPOs are a promising new entity that will stabilize the maturing society, and serve as a model for solving social issues in the 21<sup>st</sup> century.

## **7. Community Currency and the NPO Support System**

Despite the critical need to nurture a wide range of NPOs, tax incentives at present do not generate enough funds to support NPO activities. Community currency offers a viable alternative to widen the scope of transactions from the personal level to the level of businesses and NPOs, thereby establishing a place for NPOs in the community's economic circulation.

Individuals use community currency for purchases at local businesses, who along with individuals contribute the currency to NPOs. NPOs then use it to compensate volunteers, so that the money flows back to individuals. Community currency serves as a vital tool in sustaining this network. Below are two examples.

### **(1) Community HeroCard**

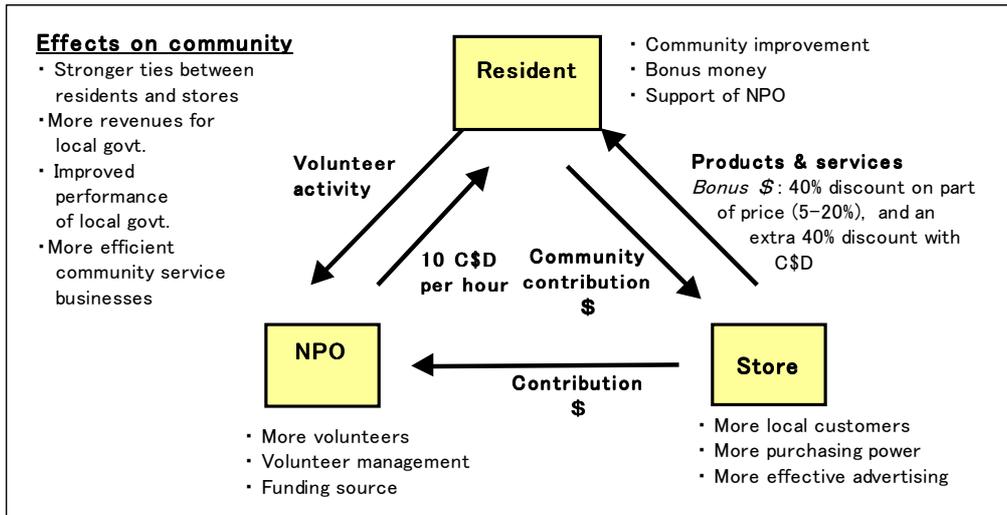
The Community HeroCard (CHC), introduced in Minneapolis, Minnesota in 1998, is a community currency that uses debit cards. The program is a collaboration between local residents, NPOs, businesses, and the local government to invigorate the local economy and community.

Residents pay an application fee of ten dollars, and when they volunteer at a participating NPO, earn ten community service dollars (CSD) per hour, which is credited to their card.

Participating stores agree to contribute 5 to 20% of the price of a purchase. If a member makes a purchase, the store unconditionally refunds 40% of its commitment to the member; another 40% is refunded if community service dollars are used, and contributed to NPOs if not. The remaining 20% is contributed to NPOs in the program.

In addition, a fee of 25 cents is charged for each card use. Community service dollars must be spent within 180 days or be automatically contributed to NPOs. As of August 1999, participants included 2,100 individuals, 43 NPOs, and 70 businesses.

**Figure 3 The Community HeroCard**



Source: Community HeroCard web site ([www.communityherocard.com](http://www.communityherocard.com))

## (2) Earthday Money—Shibuya Project

Located in Tokyo's Shibuya district, the project is jointly managed by Hakuodo and Japan Research Institute, and aims to contribute to the environment of Shibuya as well as to the global environment. As of December 2001, participants included 31 stores along the former Shibuya River who support the project's objectives, eight nonprofit organizations, and local residents. The paper currency is called Earthday money, and the currency unit is the "r," which is equivalent to one yen. It is available in 50, 100, 500, and 1,000 notes that are valid for six months. Persons who use the community currency are called contributors.

Residents first go to one of two Earthday banks, contribute cash in units of 500 yen to the NPO of their choice, and in exchange receive community currency. They can also volunteer at a participating NPO and receive 500r per hour. When they buy goods or services at participating stores, they can pay 10 to 20% of the price in community currency.

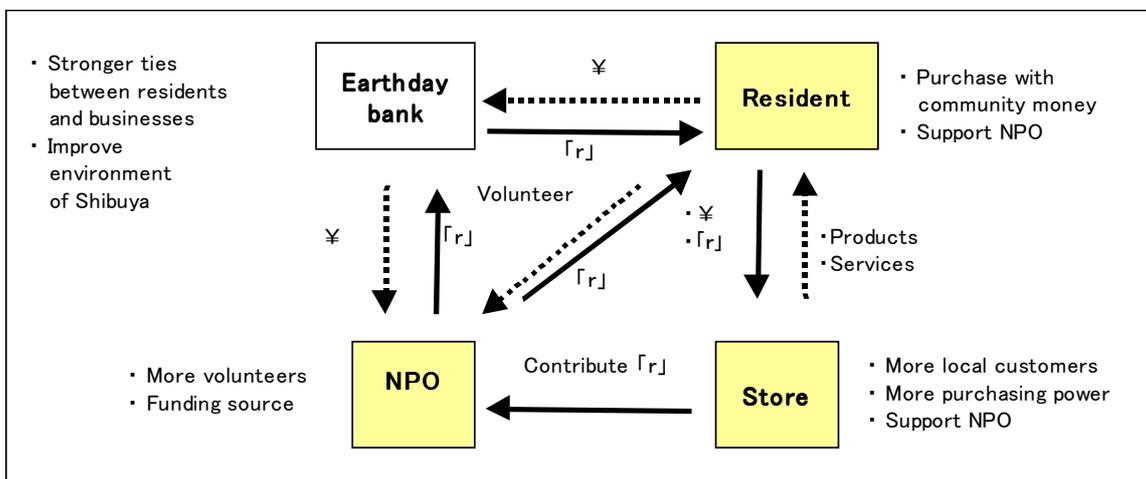
In addition, participating stores contribute to NPOs in community currency, and the NPOs can exchange r's for cash contributions from residents or pay volunteers. NPOs use contributions from residents as a source of funding.

Since the Shibuya project began last October, approximately 500,000r have been issued, and over 500 transactions made. A characteristic of the project is its expandability—already, several participating NPOs with common environmental themes are conducting different activities, and in the future more NPOs will be able to participate without overlapping.

This arrangement in which local residents, NPOs, and businesses use a community currency

to circulate funds and enjoy their respective advantages, is called the Community Way. It is a platform on which NPOs, businesses, and residents with shared concerns can initiate projects to address specific community issues.

**Figure 4 The Earthday Money Shibuya Project**



Source: Earthday Money pamphlet and web site ([www.earthdaymoney.org](http://www.earthdaymoney.org)).

## Conclusion

Communities today face an array of issues that threaten their vitality—the prolonged recession, unemployment, depressed local economies, and secular trends such as urbanization and aging. Internationally, as economic globalization advances at breakneck speed, the movement of vast funds across the global money economy is aggravating wealth disparities and poverty in many countries and regions.

Globalization involves deregulation, adoption of global standards, and free competition in a market economy. On the other hand, one of its key tenets is the acceptance of value diversity in the form of localization. This duality has been described by the term “glocalization.”

In the future, countries now regarded as relatively egalitarian may experience increasing income disparity. Community currency and NPO activity will grow increasingly important in social safety net and serving a stabilizing function.

Community currency is not a substitute for official currency. Instead, it works in harmony with and helps correct (to some extent) distortions caused by the market economy. While community currency appears to have a negligible distribution, it can nonetheless cause a

significant impact in the society through a leverage effect on the flow of official currency.

Recently, attention has focused on socially responsible investment (SRI) in companies. For companies to survive in the times ahead, they will need to fulfill environmental and other social responsibilities. Among other things, this entails supporting NPOs that address social issues of the maturing society. While tax incentives created last year will encourage cash contributions to NPOs, this by itself will be insufficient. To earn the public's support, companies will need to join with NPOs and residents in expanding the circulation of funds in communities (in the broad sense).

Building a sustainable society in the 21<sup>st</sup> century calls for an enhanced awareness of resource limitations and environmental constraints. We must create a dependable social and economic system with minimal social policy costs, one in which NPOs and the third sector will play a key role. Toward this end, community currency and NPOs offer great promise as a new model for solving social issues.

## References

Below are selected web sites related to community currencies.

*Ohmi* in Kusatsu City, Shiga pref. (<http://www.kaikaku21.com/ohmi/>)

*Garu* in Tomakomai City, Hokkaido (<http://city.hokkai.or.jp/~ishikoro/garu.html>)

*Yufu* in Yufuin, Oita pref. (<http://www.coara.or.jp/~yufukiri/letsyufu/yufu.html>)

*Como* in Tama City, Tokyo (<http://como.gr.jp>)

*Kurin* in Kuriyama, Hokkaido (<http://www.mskk.gr.jp/ecomoney>)

Eco-Money Network (<http://www.ecomoney.net>)

Rainbow Ring (<http://www.rainbow-ring.net>)

Watsystems network service provider (<http://www.watsystems.net>)