10

# Complementary Currencies, Communities, Cooperation: The Local Job Guarantee in the Eurozone

*Mathew Forstater*

The European Economic and Monetary Union (EMU) was destined for failure before it was even launched. The strict deficit-GDP and debt-GDP ratios required by the Maastricht Treaty and the Stability and Growth Pact raised a fundamental concern from the very beginning: would the Optimal Currency Area (OCA) paradigm, the explicit theoretical foundation of the EMU, give member nations the policy space necessary to respond to deficiencies in aggregate demand and persistent unemployment?

Even if there were no imposed limits on deficits and national debts, the structure of the EMU makes it nearly impossible for member nations to use counter-cyclical fiscal policy even if there were the political will. This is because, by giving up their national monetary sovereignty, countries are unable to conduct coordinated fiscal and monetary policy, essential for an effective remedy for periodic demand crises. When nations sacrifice their monetary sovereignty, they face financial constraints, becoming in effect like states in the United States, subject to fiscal discipline and in danger of default. The analogy between a government budget and a private firm or household becomes applicable, as governments have to finance their spending and suffer over their budgets. Nations go from being currency issuers to being mere currency users.

If investors are at all hesitant about any member nation's debt, they can buy any other member's debt without incurring currency risk. Because member nations are now dependent on private investors for funding their spending, failure to attract investors results in an inability to spend. Should a member's revenues fail to keep pace with their expenditure due to an economic slowdown, investors will demand a budget that is balanced, most likely through spending cuts. In other words, markets can demand

pro-cyclical fiscal policy during a recession, compounding the crisis. This is the supposed 'logic' of austerity over expansion.

Every point made in the previous three paragraphs is straight out of a two-page article introducing a symposium on the European EMU in the *Eastern Economic Journal* (Forstater 1999). The symposium was based on articles from a session organized for the Eastern Economic Meetings in 1998, published in the journal in early 1999, and written before the exchange rates between the currencies of the participating countries were fixed on 1 January 1999 (and three years before notes and coins denominated in Euro began circulating on 1 January 2002). All of these insights flowed directly from the chartalist approach to monetary history, theory, and policy and the functional finance approach to managing government budgets and the national debt (Wray 1998). Despite the author never having heard of either chartalism or functional finance, a similar understanding of the operation of modern monetary systems was contained in Warren Mosler's *Soft Currency Economics* (1994).

According to the modern money framework, a sovereign, non-convertible floating currency is a monopoly of the state. The state has not only the power to tax, but to designate what is acceptable to settle tax obligations, what it will accept at its pay offices. In this way, the state can create a demand for otherwise worthless bits of paper, leading to general acceptability. The state can issue this currency and use it to purchase goods and services from the private sector. These and related state powers constitute a menu of instruments that may be used to conduct macroeconomic policy based on the principles of functional finance (Forstater 1999). Under such a system, national budgets may be freely used to promote full employment, price stability, and other macroeconomic goals.

Such a system crucially depends on a one-to-one correspondence between money and the state – 'one nation, one money' – and only with such a strict correspondence does government debt become truly riskless, enabling the state to buy anything for sale – and settle any obligation – denominated in the unit of account (Goodhart 1998). When nations forfeit their monetary sovereignty and the strict correspondence is severed, as in the current structure of the EMU, they do face financial constraints, and currency risk is replaced by default risk.

In 2012, I visited Italy to speak about the European crisis. The options for real change considered by the panellists included: (1) exit from the EMU by Italy or other individual member nations; (2) radical reform of the structure of the monetary union, for example, seriously increasing the deficit-GDP and debt-GDP ratios, zero-interest or low interest loans to individual nations; (3) an end to the monetary union and a return to national currencies; and (4) the creation of a fiscal authority at the Euro level to work in concert with the European Central Bank (ECB), that is, a 'United States of Europe.' During the discussion period, a young audience member asked, "So, short of waiting for the politicians in our countries or the bureaucrats in the EU to implement changes they lack the will and/or the power to undertake, is there nothing we can do to help the unemployed and their families in our cities and localities?"



While a second-best solution, because they will still be operating within the constraints of the monetary union, we proposed communities consider issuing a form of complementary currency quite consistent with chartalist principles, and that a local job guarantee (JG) program be implemented to employ the unemployed in community service jobs. In fact, the general idea of alternative currencies is not one that is new in Europe. In addition, the proposal is one that could be applied in other contexts where a full-blown national JG is not possible, either due to the constraints of some type of fixed exchange rate (whether a peg to another country's currency or a monetary union) or because of political obstacles.

In the United States, for example, proposals for a job guarantee have been put forward as national policies due to the flexibility the federal government has in paying for the program. This flexibility stems from the ability of the Treasury and the Central Bank to work in cooperation to implement fiscal and monetary policies. There are many obstacles, however, to government policies at the federal level, including political, administrative, legislative, and ideological. An alternative route to job creation at the local level would be to use a complementary currency to pay for community service employment. In this way, cities, counties, or states that are currency users in terms of dollars can become currency issuers in terms of the complementary currency. In addition, this form of local financing dovetails nicely with the focus of most job guarantee proposals on local administration and management of JG activities by local governments, non-profits, and non-governmental organizations (NGOs). There are numerous other potential benefits of the local solution for individuals, families, neighborhoods, communities, and regions (Forstater 2013). It is possible that the benefits of a well-managed local currency may mean its implementation is desirable even in communities within a nation operating a chartalist monetary system and managing its budgets according to the principles of functional finance (including a job guarantee), and during prosperous times and not only in the event of a crisis.

## 1. Money, Employment, and Complementary Currencies

Underlying the EMU is a pre-Keynesian view of the operation of the macroeconomy, meaning a supply-side economics in which Say's Law is held to rule and the price mechanism is thought to endow the economy with an inherent tendency to the full employment level of output. The economists at the ECB, predominantly strict deficit hawks committed to a sound money/sound finance approach, have always seen inflation as public enemy no. 1. Austerity policies follow from a vision of an economy dominated by resource scarcity, resulting in significant unemployment with severe social and economic costs.

When there is unemployment, jobs and money, not resources and goods, are scarce. In a full employment economy, there is a sense in which

resources are scarce. Economizing is important, as resources can only be allocated to some use if they are removed from another productive activity. In an economic system with unemployment, however, resources are not scarce, as production may be increased by employing the unemployed resources. But there are other kinds of scarcity in the economy suffering from unemployment: "What is scarce is money. The lack of money to spend on the goods is what keeps the unemployed resources from producing more goods" (Lerner 1951: 147).

Historically, many complementary currencies appeared during times of economic crisis, when money was not adequately available. If the amount of national currency was not sufficient to meet the community's needs, they would simply create their own. During the Great Depression, there were dozens, if not hundreds, of cases of local currency, just in the United States (Gatch 2011). In Europe as well, numerous complementary currencies appeared during the Great Depression, and many exist there today.

The contemporary literature on complementary currencies acknowledges and accepts the central insights of chartalism and functional finance. Bernard Lietaer and Jacqui Dunne, in *Rethinking Money* (2013), write:

> [A] sovereign government does not really 'need' to raise taxes to pay for its expenses. Once this is understood, it becomes clear that neither taxes nor government bonds 'finance' government spending. Instead, taxes are required to give value to money. (Lietaer and Dunne 2013: 27)

In *People Money: The Promise of Regional Currencies* (2012), the authors state that "[i]f the authorities want to encourage regional currencies, so that their full potential can be realised, the most effective way of doing this would be to accept them in payment of specific taxes" (Kennedy et al. 2012: 68).

Lietaer and his co-authors, in *Money and Sustainability: The Missing Link* (2012: 133–138), cite authors such as Wray, Mosler, and others in support of what they call the 'fiat currency paradigm,' which they contrast with the 'official paradigm' (i.e. the orthodox view). The core characteristic of the fiat currency paradigm, they argue, is that, "the systemic role of taxes is to give value to a currency, which, in the case of a fiat currency, would otherwise have no intrinsic value whatsoever" (Lietaer et al. 2012: 136).

Historical analyses of what has been called 'tax anticipation scrip' (essentially what chartalists have termed 'tax-driven money') in the United States in the 1930s now include references to chartalism (Gatch 2011). Articles analyzing local currencies in journals such as the *International Journal of Community Currencies* and the *Journal of Cleaner Production* likewise reference the modern money literature (see, e.g. Dittmer 2013). Modern money theory has until recently not reciprocated this engagement of the complementary currency literature with chartalism, functional finance and the JG. This does seem to be changing a bit, however, and there have also been some notable exceptions, such as Peacock (2006, 2013). One of the most important links between chartalism and complementary currencies has been the Buckaroo program at the University of Missouri – Kansas City (UMKC).



## 2. The UMKC Buckaroo Program: A Chartalist Complementary Currency

When the Center for Full Employment and Price Stability (C-FEPS) moved to the Economics Department at UMKC in the fall of 1999, the department commenced a service-learning program that would encourage students to do community service while learning about modern monetary systems and government budgets. Rather than directly requiring students to do community service, the department created its own currency, called the 'Buckaroo.' The name of the currency is a play on the words 'kangaroo' (the UMKC university mascot), 'buck' (a common slang term for a dollar), and – being located in Kansas City – the word for cowboy derived from the Spanish, *vaquero* ('Buckaroo').

On the face of the Buckaroo is the inscription: "this note represents one hour of community service by a UMKC student," and the note is denominated as 'One ROO Hour.' The note also has a picture of Thorstein Veblen, the institutionalist economist who held a position for a time at the University of Missouri, and whose work is closely studied by students at UMKC.

Instead of just requiring students to do service, professors include as part of the course requirements that students pay a tax of, for example, four Buckaroos per week for the semester. Approved community service providers (state and local government offices, public schools, NGOs, and not-for-profit agencies) submit requests to the UMKC Economics Department 'Treasury' for student hours and are awarded 'special drawing rights' (SDRs) as long as basic health and safety and liability standards are met. Service providers pay students one Buckaroo per hour, which is equivalent to spending by the Treasury. Students pay their tax with the Buckaroo notes they earn performing community service, and the requirement is met when their tax liability is met.

There is no limit to how many Buckaroos a student can earn. Some students will perform more hours of service than that needed to satisfy their tax liability. Buckaroos are freely transferable, so they may exchange for goods and services or other currencies.

Buckaroos are a floating exchange rate currency, in other words UMKC does not peg the exchange rate between buckaroos and dollars, for example. Buckaroos are also non-convertible, meaning UMKC doesn't promise to convert it to anything, such as gold. The Buckaroo is a case of public monopoly, since UMKC is the sole supplier and it is against the rules to counterfeit Buckaroos. The Buckaroo is a sovereign currency, issued by a monopoly supplier who imposes a tax liability in its otherwise worthless currency. UMKC only promises it will accept Buckaroos in payment of taxes. The dollar is also a sovereign, non-convertible, floating currency without

intrinsic value and operated as a public monopoly. The only promise the US Treasury makes is that it will accept dollars in payment of taxes.

UMKC always runs a Buckaroo deficit, because students always earn more than their tax liability (they lose some, keep some as souvenirs, etc.). UMKC's Buckaroo fiscal deficit is exactly equal to the Buckaroos saved by the students. The value of the Buckaroo is a function of what the students have to do to earn a Buckaroo from UMKC, and is unaffected by the size of the deficit or the amount of Buckaroo spending by the department. UMKC Buckaroo spending, however, does not depend on collecting taxes. Certainly, UMKC does not need to borrow Buckaroos in order to spend.

A UMKC graduate, Fadhel Kaboub, earned his Ph.D. and left to become a professor at Denison University, where he started a similar program there called 'Denison Volunteer Dollars.' If UMKC decided it would give up its currency, and join a monetary union with Denison, then UMKC could not pay students unless it collected taxes first, or borrowed DVDs in private markets. UMKC would no longer be a monetary sovereign. It would no longer be a money monopolist. It could no longer continue to run fiscal deficits to create full employment and satisfy the desire of students to save. Denison would tell UMKC it better get its fiscal house in order, and so force UMKC to accept an austerity program.

When Greece, Spain, Italy, and other member nations joined the Euro, it put itself in exactly the same position as UMKC, if UMKC gave up the Buckaroo and joined Denison in a monetary union (or pegged the Buckaroo to the DVD). Before adopting the euro, the member nations were also monetary sovereigns, and their currencies were also a non-convertible floating currencies backed by the tax system. But when they adopted the euro, they voluntarily gave up their monetary sovereignty. They are no longer money monopolists. They are no longer a currency issuers, but now, like households, they are currency users.

Short of UMKC voluntarily giving up its monetary sovereignty, however, the similarities between the Buckaroo and other non-convertible, floating currencies such as the dollar:

> Governments issue money to buy what they need; they tax to generate a demand for that money; and then they accept the money in payment of the tax. If a deficit results, that simply indicates that the population wishes to hoard some of the money. The deficit is of no consequence to the government; it merely allows the population to save in the form of government money. If the government wants to, it can let the population trade the money for interest-earning government bonds, but the government never *needs* to borrow its own money from the public. Taxes and bonds, therefore, have nothing to do with *financing* a government's spending. (Wray 2000: 61–62)

## 3. Local Job Guarantee in the Eurozone

Complementary currencies (CC), both historically and currently, come in a variety of forms. Some have a fixed exchange rate with the national



currency, while others have a rate that is not. Some are based primarily on commitment of the community members to the locality, while others are 'tax-driven.' Some are issued by NGOs or other community organization, while others are issued by the local government. To create jobs within the Eurozone, we propose that localities run what amounts to a local Buckaroo program, where the CC is a non-convertible, floating rate currency issued by the local government and is tax-driven.

The local government would impose a tax payable only in the CC, say four per household. We propose the tax be imposed on households rather than individuals so as not to penalize larger families. For the programme to operate, the CC needn't be accepted in payment of any other tax. The locality will then announce that it is offering a community service job to anyone ready and willing to work, paying one CC per hour. For localities suffering under the economic crisis plaguing the Eurozone, four hours per week of community service is not too much to ask households to contribute to rebuild their economies.

Some households will work more than four hours per week, some will work less. Those who work, say, forty hours per week, will pay their tax and have thirty-six CCs left over. Those who are too busy to work in the program (because they are working full-time, for example) will need to acquire CCs from those who have extra. In this way, the CC will circulate in the local economy.

Like the Buckaroo and the US dollar, and unlike the euro, the CC would be a non-convertible, floating currency. Like UMKC and the United States, the local community will be a monetary sovereign (in terms of CC). Depending on the regional, national, and local laws, the CC may be called something other than 'money,' but since there are currently dozens if not hundreds of alternative currencies operating in the Eurozone, there is nothing preventing localities from pursuing full employment in this way.

Interestingly, a similar proposal has been independently put forward in the alternative currency literature. Bernard Lietaer and his co-authors, cited above for their recognition of chartalism, have proposed a local employment program based on a complementary currency they call 'civics' (Lietaer et al. 2012: 174–179). As in the local currency literature generally, the authors discuss other aspects of the proposal that make sense, such as the advantages of electronic accounting over paper currency, and cases where households may be exempt from the obligation (elderly, those with disabilities).

## 4. Enhancing Community: Other Benefits of Localism

The local job guarantee would have all the regular potential benefits of employment and the national job guarantee, such as increased production of community services, developing skills, utilizing creativity, and countering the social costs of unemployment. The local aspect of the program has additional potential benefits, however, such as those often noted in the local currency literature and other considerations of localism.

The programme promotes increased interaction with one's neighbours, and in this and other ways can strengthen community ties. The program therefore promotes mutual aid and reciprocity. Family and neighbourhood empowerment follows from a programme based on cooperation and local development. Numerous environmental benefits are also possible.

The structure of the EMU is biased towards unemployment and austerity. The crisis continues, with no sign of letting up. A number of possible paths exist for the member nations or for the region as a whole, all of which would require significant political and economic changes that seem out of the reach of everyday citizens who bear the burden of the costs of a depressed economy. One possible avenue for local communities is to create a complementary currency and use it to operate a local job guarantee, employing the unemployed in performing community service.

## References

Dittmer, Kristofer (2013), 'Local Currencies for Purposive Degrowth?: A Quality Check of Some Proposals for Changing Money-as-usual,' *Journal of Cleaner Production*, 54, 3–13.

Forstater, Mathew (2013), 'The Job Guarantee in a Municipal Confederalist Framework: Counterhegemonic Possibilities in the Age of Neoconservative Globalization and Economic Crisis,' in *The U.S. Economy and Neoliberalism: Alternative Strategies and Policies*, edited by N. Karagiannis, Z. Madjd-Sadjadi, and S. Sen, London and New York: Routledge, 48–55.

Forstater, Mathew (1999a), 'Introduction,' Symposium on the European Economic and Monetary Union, *Eastern Economic Journal*, 25(1).

Forstater, Mathew (1999b), 'Functional Finance and Full Employment: Lessons from Lerner for Today,' *Journal of Economic Issues*, 33(2), 475–82.

Gatch, Loren (2011), 'Tax Anticipation Scrip as a Form of Local Currency in the USA during the 1930s,' University of Central Oklahoma.

Goodhart, Charles A. E. (1998), 'The Two Concepts of Money,' *European Journal of Political Economy*, 14, 407–32.

Kennedy, Margrit, Bernard Lietaer, and John Rogers (2012), *People Money: The Promise of Regional Currencies*, Devon, UK: Triarchy Press.

Lerner, Abba P. (1951), *The Economics of Employment*, New York: McGraw Hill.

Lietaer, Bernard, Christian Arnsperger, Sally Goerner, and Stefan Brunnhuber (2012), *Money and Sustainability: The Missing Link*. Devon, UK: Triarchy Press.

Lietaer, Bernard, and Jacqui Dunne (2013), *Rethinking Money: How New Currencies Turn Scarcity into Prosperity*. San Francisco: B-K Currents Book.

Mosler, Warren (1994), *Soft Currency Economics*. West Palm Beach, FL: AVM.

Peacock, Mark (2006), 'The Moral Economy of Parallel Currencies,' *American Journal of Economics and Sociology*, 65(5), 1059–83.

Peacock, Mark (2013), *Introducing Money*. London: Routledge.

Wray, L. Randall (1998), *Understanding Modern Money*. Cheltenham, UK: Edward Elgar.

Wray, L. Randall (2000), "Modern Money,' in *What is Money?* edited by J. Smithin, London and New York: Routledge, 42–66.

Part III

# The EU North–South Divide and Country Studies