Margrit Kennedy
margritkennedy@monneta.org

REGIO COMPLEMENTS EURO
New Paths to Sustainable Prosperity

Paper to be presented at the Conference of the E. F. Schumacher Society "Local Currencies in the 21st Century" June 25-27, 2004, Bard College, Annandale-on-Hudson, New York, USA

Translated from the German by Claudia Vispo and Hildegarde Hannum of the E. F. Schumacher Society. Edited by Hildegarde Hannum. Further editorial input from Jacqui Dunne of the Access Foundation.

Abstract

This essay explains the rationale for introducing regional currencies as a feasible way of counteracting the negative consequences of economic globalization. The region as an economic unit with its specific interests and potential is strengthened by means of its own currency, called the Regio. A regional currency complements many other assets within an easily defined geographic area that people relate to personally and emotionally: from protection of cultural identity to marketing regionally grown foods, from the ecologically sensible use of the shortest transportation routes to exercising ethical concern when utilizing non-renewable resources. Whereas the Euro serves to promote international exchange, competition, and the accumulation and redistribution of wealth through savings or investments that bring exponentially growing interest or dividends, the Regio benefits everyone who uses it. As an integral component of regional economic cycles, the Regio can (1) sustainably curb the dangers of inflation and deflation, (2) connect unused resources with unmet needs, (3) provide a currency with guaranteed circulation that serves the common good, (4) be established through a transparent process, and (5) be democratically controlled by the inhabitants of a region. The most important advantage of the Regio, however, is that it can stop the drain of financial resources to low-wage countries and tax havens, thereby calling a halt to the migration of companies to other countries and the resulting loss of jobs.

Technically, we are currently able to realize humanity's dream of providing for the needs of every person on earth and letting machines do the most unpleasant kinds of work. What is missing is the money to do it. Yet money is nothing but an agreement among people to accept and use as a means of exchange a certain medium—be it paper money, coins, shells in some parts of the world, or cigarettes during a war. Could it be that our thinking has become stultified because of our entrenched understanding of money?

If we look a little closer, it becomes clear that there isn't a shortage of money at all. There is actually an abundance of it. What is missing is its equitable distribution together with an equitable distribution of access to the resources of our world. Today, only 3% of global financial transactions involve the exchange of real goods and services; 97% of money transfers take place for speculative purposes. The currency trader George Soros demonstrated that such speculation can lead to the destabilization of currencies. In 1992 his speculative transactions brought about a devaluation of the English pound that cost British taxpayers approximately one billion dollars. Soros, now a critic of the system, said in an interview with the German magazine *Der Spiegel* (No. 51, 1999, p. 100): "What has happened during recent months should worry us. . . . We have truly witnessed a tremendous collapse on the periphery of the system of global capitalism. . . . We were very close to a meltdown of the international banking system. . . . The Russians became insolvent, and the Long-Term Capital Management hedge fund almost went under. If the central bank in New York had not intervened, credit risks would have resulted that nobody was prepared for."

Because the center of the system—the highly industrialized countries of the West—has hardly been affected thus far, many people still think they are immune from the dangers that have destroyed the lives of so many in Asia and Latin America. George Soros (1998) thoroughly refutes this misconception in his book *The Crisis of Global Capitalism*; however, his proposed solutions, such as more control over the financial markets, fail to get at the root of the problem and—even if they could be implemented, which is not very likely—would treat only the symptoms. My basic thesis is that the lack of equitable distribution of money is a result of the monetary system itself; therefore, I focus on two questions: How can we create a money system, which in itself would be neutral in respect to its distribution? And what are the practical means for bringing this about? To begin, there are a few basic concepts essential to understanding not only the solution but also the proposal for its realization.

An analysis of the problem

The money we deal with on a daily basis serves two contradictory purposes. On the one hand, as one of humanity's most ingenious inventions it functions as a means of exchange and is the prerequisite for a functioning division of labor, i.e., it is the foundation for every civilization. On the other hand, it can also be hoarded, and in this capacity as a means of storing value it often inhibits exchange. For example, take two individuals, one who has a bag of apples and another who has the money to buy those apples; the apples will rot within a few months whereas the money will keep the same value. Money's attribute of permanence and its ability to function as a joker card (it can be exchanged for anything else) provide the necessary mechanisms for the owners of money to earn interest without lifting a finger. But the fact that we now take it for granted that interest is charged and must be paid can be attributed to three fundamental misunderstandings.

Ever-increasing quantitative growth?

The first misunderstanding has to do with differing processes of growth. Human beings, as well as plants and animals, show "natural growth" in the physical realm: we grow relatively quickly during the early phases of our life; then physical growth slows and eventually stops when we reach our optimal size at around the age of twenty-one. From this point on—i.e., for the longest part of our life—we change, with all our subsystems, almost exclusively qualitatively, not quantitatively. Therefore, I want to call this curve the "natural" or "qualitative" growth curve.

There are two other fundamentally different patterns of growth. One of them, mechanistic or "linear" growth—i.e., more machines produce more goods, more coal produces more energy, and so on—is of minimal importance to our analysis. Nevertheless, I want to emphasize that in view of earth's limited resources this kind of constant increase in production (symbolized, for instance, in the logo of the Deutsche Bank) cannot be sustained.

On the other hand, it is very important that we understand the concept of exponential growth, which one might call the antithesis of natural growth. The former starts very slowly, increasing continuously, and then enters a stage of almost vertical quantitative growth. In the human body such growth usually indicates a disease. Cancer, for example, follows an exponential growth pattern. At first it grows slowly, one cell splitting into two; then its rate of growth increases continuously, splitting into 4, 8, 16, 32, 64, 128, 256, 512, and so on. Once the disease is diagnosed, it often has already reached a phase of growth where it can no longer be stopped. Such exponential growth usually ends with the death of the organism in whose body it takes place—and that means also with the death of the "guest," for with the destruction of its "host", it is deprived of the conditions needed for its own life. Therefore, not understanding the problems associated with this kind of growth results in a serious misconception concerning the function of money. Similarly, interest and compound interest cause money to double in value at regular intervals. In other words, it grows exponentially. This explains why, at certain intervals in the past and now too, we have experienced significant problems with our money system.

The famous example of "Joseph's penny" illustrates that interest as a means of ensuring the circulation of money can function only in the short or medium term. If at the time of the birth of Christ, Joseph had invested one penny and the bank had given him an annual interest rate of 5%, by the time of German reunification in 1990 and at the then current price of gold, the penny would have earned 134 billion balls of gold, each weighing as much as the earth! This shows that although the continuous accumulation of interest can be calculated mathematically, it is in fact an impossibility; therefore, interest as we know it cannot function in the long term as a means of guaranteeing continually the circulation of money.

Interest actually does behave like a cancer within the economic system and therefore equally so within our society, our "social organism." If we were able to introduce instead a money system that corresponds to the "natural" growth curve, then the zero-growth or qualitative growth that has long been called for by ecologists and economists would be possible.

Fun was made of those Albanians who believed some investment bankers when they said a so-called pyramid scheme would bring monthly returns of 25%. Because of the exponentially increasing amount of money invested, this was a reality, but only in the short term. As soon as the rate of increase of investments slowed down, however, the system inevitably collapsed. Basically, we are not much smarter, because whoever accepts our current money system runs precisely the same risk, albeit over a longer period. In high-interest countries such as Latin America this collapse happens about every ten to fifteen years. In low-interest countries like Switzerland or Germany it happens every forty to sixty years. And then a major breakdown occurs in the form of financial collapse, social revolution, or war.

Is interest paid only on loans?

The second misunderstanding is to think that we pay interest only when we borrow money. Of course that is not the case, because every price we pay includes an interest portion—exactly that portion of interest that the producer of the bought goods or services had to pay the bank in order to purchase machines and equipment. For instance, in Germany the share of interest in waste management fees is around 12%, in the fees for public water supply around 38%, and in the rent for public housing even 77%. On average, we pay 40% interest or capital costs as part of all prices we pay for services we need in our daily lives (Creutz, 1993, pp 338-339). If interest could be replaced by another means of securing the circulation of money, most of us would be able to almost double our income or work proportionally less in order to maintain the same standard of living.

Is interest a fair charge?

The third misunderstanding is to believe that interest represents a fair charge because it has to be paid by all of us for loans and in the prices for goods and services. And we all receive interest on our savings. Only the very few understand to what degree the effect of interest and compound interest causes—completely legally—an on going redistribution of money from those who have to work for their income to those who receive income because they can afford to lend out money. If you divide German households into ten groups of equal number and you look at what they each pay in interest and what they get, it becomes obvious that 80% of households pay almost twice as much in interest as they receive, and only 10% of the population receives what the large majority loses in interest. This means that the "fairness" inherent in the fact that we *all* receive interest on our savings and investments proves to be deceptive upon closer inspection. In reality the system works profitably only for those people with interest-bearing assets worth over 500,000 Euros. In the year 2001 the sum that was redistributed through the interest system within Germany amounted to approximately one billion Euros per day.

Banks, insurance companies, and multinational corporations are the major parties that profit from the interest system. In this respect, the interests of business employers and employees are more similar than the parties on the left suggest. There is a bigger difference between those who have to work for their income and those who receive an income largely without working. Interest is therefore the wrong pricing mechanism in a "free market economy": the "team-mates"—the actors in economic life who take risks and contribute to wealth creation—are punished by interest costs; the “spoilsports,” who can afford to hold on to their money, are rewarded with income from interest, an income inherently void of self-actualized productivity. In addition to reinforcing pathological economic growth, this money system inevitably leads to an ever more uneven distribution of income and wealth, i.e., to a polarization of society.

The attempt of the traditional left to solve this problem by socializing the means of production was not successful because the problem of redistributing wealth through the monetary system was largely unrecognized and still remains a widely respected taboo. Admittedly, the production of goods in the *production sphere* creates the “added value”, but the distribution is determined in large part within the *circulation sphere*. We know today that state socialism instead of private capitalism is no solution to the dilemma.

Neither socialism nor capitalism has been able to reform the "social market economy" in the direction of greater social and ecological justice. This is because neither type of societal organization is a true alternative; they are more like two sides of the same coin. The current problems in the banking and financial systems and the increasing polarization of society through the redistribution of wealth are not, as is claimed repeatedly, caused by a lack of social laws or the corruption of decision-makers in politics and the economy. These are admittedly factors that add to the problems, but some of the most important reasons, which are little known and rarely discussed openly, are to be found in the way our monetary system works.

User fees instead of interest

Ever since 1916 we have known of a solution that isn't only surprisingly simple and elegant but is also practicable and easy to understand. It was discovered and first published in 1916 by Silvio Gesell, a German-Argentinean businessman. His "Natural Economic Order" is to capitalism and communism as the Copernican worldview of the earth as a sphere is to the Ptolemaic view of the earth as flat.

Instead of charging interest in order to assure the circulation of money, Gesell proposes a fee which would act as a "circulation incentive " or "demurrage", thus largely limiting money to its function as a means of exchange and as a stable means for storing value. If you have more money than you need, you take it to the bank, which lends it out, returning it to circulation, and then there is no fee.

Not much would have to be changed from our current way of doing things. The incentive to save money would continue. While money in the checking account would be treated like cash and subject to the circulation incentive, money in the savings account would be free of that fee, retaining its value. A borrower would have to pay for the bank’s services in addition to a risk premium, both fees that are currently included as a small part of each loan. These fees usually don't amount to more than 2% to 2.5% in interest charges; they would not lead to exponential growth since they just pay for the work done and would not accrue compound interest.

The hoarding of cash can be prevented in a variety of ways. For example, there could be a color series of bank notes, which are devalued (6-12%) once a year or continuously (0.5-1% monthly) or which carry expiration dates (similar to those on perishable food items). This is even easier to implement now with the increase of monetary transactions by means of chip cards or smart cards, which are capable of accepting up to twenty different payment options.

All that is lost within the new money system is the compulsory exponential growth in savings and the distortion of the "free" market that results in the accumulation of money in the hands of a few. Until now, the economy has been dependent on capital (Hans-Martin Schleyer, the former president of the German Industrialists Association once said, "Capital must be served"). With the new system, money has to make itself available to the demands of the economy in order to avoid a loss in value. This means that capital would finally serve us.

In this sense a sustainable economy and prosperity for all are possible for the first time because we can create a money system that follows a natural growth curve; in other words, it stops quantitative growth at an optimal size and allows for more qualitative growth. Instead of excessive consumption, this could gradually signify more quality of life; instead of resource depletion, more environmental protection; instead of individual travel, more car-sharing; instead of ever cheaper clothing, more quality garments; instead of cut-backs in social and educational institutions, their expansion. And all this would be possible in part because there would no longer be any pressure from the money system to demand exponential growth from the economy and ultimately from the people. Perhaps we would then even find time again for our parents and our children, for art and culture as integral components of every human life.

People had a different attitude toward culture, art, and time during the historical periods when money was based on a circulation incentive. For example, during the High Middle Ages the "Brakteaten" money which was recalled every third or fourth year and devalued by 20 to 30 percent—which was also the way the "mint sovereigns" (bishops, kings, dukes) collected their taxes—was the basis for the grand cathedrals we still admire today. They were also public works programs. It was clear to everyone that their construction would create employment over a period of two hundred years—and some of them, such as Chartres, Bamberg, and Regensburg, retain this function to the present day. Today, investments are made only if they amortize in five years at the most, and then what do we leave to our children? Depleted oceans, polluted rivers and lakes, radioactive waste dumps.

If we were to introduce a new monetary system, the majority would have much to win and nothing to lose. Combined with a new system of land tenure based on the communal ownership of land, which passes to one's children the value added to the land (Gesell, 1949) by each generation, these two major causes of poverty as well as the increasing gap between poor and rich could be greatly diminished or even eliminated.

It is easy to see how historical and systemic defects in our monetary system—namely, the mechanisms of interest and compound interest—are responsible not only for the ongoing redistribution of the common resources of this world to benefit a small elite but also for the imposition of an artificial need for permanent compulsory growth, which nobody can escape.

Neither debt relief for the countries of the Third and Fourth Worlds that are paying more than $350 million a day in interest to the rich industrial countries nor the development aid from industrial countries can get to the root of the problem. The total amount of aid collected by welfare agencies world wide for the poorest countries merely offsets the interest payments of these countries for approximately fourteen days a year.

Even more dangerous and destructive than interest itself is one of the unavoidable results of the exponential growth of our monetary system, the unrestricted mobility of capital, which allows and in many ways forces the production sector to locate and relocate wherever the cheapest labor and lowest environmental standards are to be found. It compels all nations to take part in the socially and environmentally destructive race to the bottom.

Bringing about change at the regional level

This brings us to the most important questions that must be asked: How might we realistically introduce and test a money system that proves to be a viable solution to the problems addressed above? A system that would balance the negative effects of globalization that is durable, sustainable, and fair?

The *local level* seems too small to make a difference. For example, in the LETSystems (local exchange and trading systems), the share of goods and services the average individual participants can usually obtain does not exceed 3-5% of their needs. Transaction costs—or the time it takes to receive the desired product or service—are normally too high to advocate this solution on a large scale. (One possible way to eliminate these disadvantages would be to establish clearinghouses that would connect local exchange systems to form larger units and to professionalize the bookkeeping. This is currently being developed in the Austrian region of Vorarlberg.)

On the *national level*, the German Mark was recently abandoned in favor of the European currency. The introduction of the Euro has had both positive and negative repercussions: positive because it ended speculation among European currencies; negative because the Euro has made it more difficult for national governments in Europe to react effectively to specific emergency situations, developments, and events.

This leaves us with the interim *regional level*. We know that in theory those economic transactions which occur within a region can be made with a regional medium of exchange. If this special currency could be designed to include a circulation incentive, this would substantially invigorate exchange within a given region. Obviously, not all regions are equally equipped to adopt this solution. Economic autonomy is more easily attained in regions with greater diversity of production. Such a region would therefore be a better candidate than those where the majority of people work in the same factory for one dominant employer.

There is little in the way of research or data that can be used in this context because our definition of "region" emerges only once the new regional currency itself is established. Where a respective region begins and ends depends on the willingness of the majority of people to use the currency. Obviously, nobody can be forced to do so. Willingness to participate may be determined not only by geographic boundaries but also by economic, cultural, and historical factors. The development of complementary regional currencies enables us, for the first time since the introduction of national currencies in the nineteenth century (the departure from regional currencies wasn't that long ago), to support the regional production of goods and provision of services, and – if identifiable as such—to make a point of purchasing regional goods and services preferentially.

Regional currencies bring new potential for economic growth for small and medium-size enterprises, which are responsible for creating most of the jobs and profit primarily by means of production, not investment. The cost of creating workplaces for regional production is a fraction of the cost of workplaces that serve international markets.[2] So why shouldn't banks be willing to collaborate with local and regional governments in order to offer a regional currency within their portfolio?

The goal is to create another means of payment that is feasible and operational in order to test whether or not the model of a stable currency based on a circulation incentive works in this context.

---

[1]Mathew D. Rose (2003) illustrates this with the example of the "Berliner Bankgesellschaft" in his book *Eine ehrenwerte Gesellschaft* (An honorable corporation).

[2]Pointed out by Jakob von Uexkuell at a conference called "Die spirituelle Dimension wirtschaftlichen Handelns" (The spiritual dimension of economic actions), Würzburg, Conference Center, 9 November 2003.

The components of a fully-fledged regional currency

In order to achieve this goal, a regional currency must not only be legal but should realistically be introduced in stages and should be able to quickly gain legitimacy through the trust of the population. On the basis of the current legal system in Germany and experience with complementary currencies in recent years, this is possible only if three partial models are combined. Together, these models embrace all the functions which the present international money system fulfills, but on a regional level:

Firstly, a *voucher system*—used today by many commercial enterprises to enhance customer loyalty—can be used as a means of payment to further the economic development of a region. This is currently being tried in Prien am Chiemsee (Bavaria), where the Regio (regional money) is circulating under the name of "Chiemgauer."

Secondly, a *cooperative barter system* increases the liquidity of small and medium-size businesses through a system of accounts and the establishment of credit lines for each participant. It combines the professional features of a commercial barter club with the non-profit features of a local exchange and trading network, and it offers the inhabitants of the region an opportunity to exchange skills among themselves. An example with a fifty-year history of success is the WIR Ring in Switzerland, which—since 1934—has been serving small and medium-size businesses exclusively. It offers its 60,000 members—constituting 20% of all small and medium-size businesses—trade opportunities, which in 2002 amounted to an equivalent of $1.7 billion per year.

Thirdly, a *member bank*, serves long-term, large-scale credit needs. Members receive interest-free loans linked to an interest-free savings plan. This model could work along the lines of the JAK Members Bank in Sweden, whose membership has been increasing steadily since 1965 and which now serves 26,000 people, offering a credit volume equivalent to $70 million per year.

This amalgam of various regional currency mechanisms performs virtually any function of the current money system. The voucher system is used, like cash, for everyday payments of small amounts. The cooperative barter system allows for the exchange of goods and services as well as granting lines of credit between individuals and between small and medium-size businesses. The member bank provides for credits based on savings deposits—both in Euros and in the specified regional currency—for individuals and entrepreneurs.

This combination has several advantages: all of the components can be introduced separately, but together they allow for an orchestra of synergetic effects. All three can be depended upon because they either have a history of success in another context (i.e. commercially, geographically, or culturally) or they have already been in use for many years. Given the fact that cooperative barter systems and member banks have been described in other publications,[3] I will focus below—after a more detailed description of the differences between Euro and Regio—on the Regio as a voucher system.

Differences between the Euro and the Regio

In order to accentuate the fact that a regional currency differs from the Euro, I suggested the term "Regio" to be used for a complementary regional currency. This was accepted by the Regio Network, founded in September 2003 in Prien.[4]

In contrast to the Euro, the Regio has the following characteristics:

• It is not an "official" means of payment, which means that nobody has to accept it.[5] Acceptance is entirely voluntary;

• Its use is limited only by geography, and in each region the currency bears a different name;

• Exchanging it for other regional currencies or for the national currency imposes an exchange fee[6];

• It does not earn interest.

---

[3]See Margrit Kennedy, *Geld ohne Zinsen und Inflation* (Interest- and Inflation-Free Money). A more detailed discussion of these models can also be found in chapter 4 of *Regionalwährungen: Ein neuer Weg zu nachhaltigem Wohlstand* (Regional currencies: A new path to sustainable prosperity) by Margrit Kennedy and Bernard Lietaer.

[4]All participants at the founding assembly of the Regio Network in Prien/Chiemsee on September 29, 2003, agreed on this term, which is to be supplemented in each region with a specific regional designation such as Chiemgauer, Mangfalltaler, Justus, Kreiser, Halvel-Taler, Heller, etc.

[5]If, for example, a business does not accept the Euro as a means of payment for a particular item, the potential buyer is entitled to take that item with her.

6Guaranteed circulation signifies that the original function of money as a means of exchange is taken into account. Obviously, cash is not a profitable means for saving, yet hoarding cash is a fact of life, even today. Although regional limitation and linkage to national currency are disadvantages, they nevertheless encourage circulation. These incentives will not be enough in the long term, however, and it is essential that creative mechanisms to guarantee circulation be integrated from the very beginning, if possible, into a Regio initiative. The sooner the innovation of a genuine guaranteed circulation is included, the better.

According to Gresham's Law, these characteristics make the Regio "bad" money—in other words, everybody will always be eager to get rid of this means of exchange before spending Euros. This, however, is exactly the intention. We are essentially turning Gresham's Law on its head, because in terms of optimizing the exchange function, the Regio is inherently "superior" money. It would be more correct to say that the two currencies —the national/international and the regional—are individually designed to fulfill different functions.

The Euro is well suited for international exchange, competition, and the accumulation and redistribution of wealth through savings and investments that claim exponentially growing interest or dividends. In contrast, the Regio is suitable as a means of exchange that intentionally promotes social, cultural, and ecological goals. The Regio can also be used to promote the efficient use of non-renewable resources within the defined geographic areas that people relate to personally and emotionally.

The Regio is, so to speak, a trademark, which ought to have—and perhaps even guarantee—a certain quality.[7] With the development of quality standards, the Regio deliberately distinguishes itself from other complementary currencies. Exchange circles, barter and senior citizen clubs, and many other complementary currency communities use currencies that serve specific functions within the general area of neighborly cooperation, making the best use of available resources. The Regio has its own distinctive features within this diverse landscape:

- Regios connect different partners within the region and benefit all participants.
- Regios function within the context of regional economies.
- Regios are complementary to the existing national currency.
- Regios reduce the long-term risks of inflation and deflation.
- Regios systematically promote circulation with incentives.
- Regios are non-profit as well as professionally organized.
- Regios are democratically controlled and function transparently.
- Regios serve individual community members, small and medium-size businesses, and institutions.
- Regios encourage ecologically sound thinking—i.e. inter-community, and regional relationships, and create shorter, more efficient transportation routes.
- Regios embolden regional communities by reinforcing traditional identities and/or forging new ones.

---

[7] This paragraph was written for the Regio Network in collaboration with Christian Gelleri.

The question is whether or not the value of Regios should be equivalent or calibrated to that of Euros. This might be useful at first because it does not require the calculation of exchange rates when shopping or paying bills, it also makes it easier to calculate income taxes in Regios. But it is very important to include a clause in the by-laws of the issuing association that permits a transfer to other monetary units—in case the Euro should undergo galloping inflation. In this case, for example, the average hourly wage could instead be used as a unit of measure. The price of a kilowatt-hour of electricity or a cubic meter of drinking water could also be used as units, especially if vouchers were issued as a means to pay for such services.

In the long term, inflation—which has harmful effects on wealth—and deflation— which is detrimental to long-term growth potential—can best be avoided if there is cooperation between the central bank and complementary payment systems. Research concerning cooperative and commercial barter clubs in Switzerland and in the United States has shown that such systems have a substantial system-wide, anti-cyclical stabilizing effect. An often overlooked feature of complementary currency systems is that their use is likely to increase during times of economic recession and decrease when the economy is booming. In this way they reinforce not only the anti-cyclical measures of both central and regional banks but also the effects of government-initiated fiscal and monetary policies.[8]

The Regio complements the Euro. It is not meant to replace it. Therefore, it is not an *alternative* but a *complementary* currency. Since we normally do not speak of "Euro money" or "Euro currency," there is no need to call the Regio "Regio money" or "Regio currency," although in the beginning it might be necessary to clarify the function of the new means of payment. But we suggest that in the future we simply say "Regio," the term is already being used by the Regio Network in Germany.

Cooperation with regional banks

Considering all the requirements that a complementary regional currency must fulfill, the question arises whether the introduction of such a currency could or should happen in cooperation with local or regional banks. One concept is to establish a Regio members bank, which would

---

[8]James Stodder, "Reciprocal Exchange Networks: Implications for Macroeconomic Stability," Rensselaer at Hartford, Hartford, Connecticut, (stodder@rh.edu), August 2000. An earlier version of the research results is found in the proceedings of the Engineering Management Society (EMS) Conference in Albuquerque, New Mexico, held by International Electronic and Electrical Engineering (IEEE).

allow participating institutions to lend out their gradually accumulating assets, to finance larger investments, and to administer the savings of their members. However, would this be a replication of the already existing local banks , which would naturally oppose this new competition?

The answer to this question depends on many factors. How obliged do bankers in the local community feel to work toward the common good and serve the community? To what extent will the citizens of the region demand that the relevant social criteria embodied in the bank statutes be observed.

According to Gernot Schmidt,[9] in Germany—in contrast to England, where the banking system is completely privatized—there are profit-oriented private banks, member-oriented cooperative banks, and task-oriented savings banks. The latter two are permitted to do business only within their regional economic sphere. In Schmidt's opinion, cooperative banks and savings banks are obligated to concentrate on the economic well-being of their region because they are restricted to regional banking. They are thereby obligated to "fertilize, plant, and harvest" regionally. He argues that a regional currency would be helpful in adjusting regional supply to regional demand. In this respect revitalization of the regional economy together with encouragement of community life within the region have existential significance even for the existing small and medium-size savings and cooperative banks.

The savings bank where Gernot Schmidt works in Delitzsch-Eilenburg is the first bank in Germany to commission a legal opinion that clarifies the jurisdiction of central banks regarding complementary secondary-currency systems.[10] Because voucher systems as currency are currently in a legal gray-zone, they are thus far tolerated in Germany. As long as the word "voucher" is clearly printed on the means of exchange, the volume of vouchers issued can be easily ascertained, and the value of the voucher cannot be exchanged 1:1 with the Euro, then—according to the initial information coming from the central banks—there does not seem to

---

[9]Chapters IV and VIII in *Regionalwährungen: Ein neuer Weg zu nachhaltigem Wohlstand* ("Regional currencies: A new path to sustainable prosperity") by Margrit Kennedy and Bernard Lietaer.

[10]There certanly are not yet many bankers who can publicly support such a view without risking their job. But the savings bank in Delitzsch has a long tradition of social committment. In the middle of the nineteenth century, during a time of crisis not unlike our own, a government representative from Delitzsch named Schulze proposed and carried through—against strong political resistance—the founding of today’s "Volksbanken" as cooperative banks.

be a problem. There would *not* be a legal problem with the use of a regional secondary currency as money in deposit accounts because, as Hugo Godschalk has indicated, an affirmative legal opinion has already been handed down.[11] Vouchers have never been used as "cash replacement" in Germany, and therefore no legal precedent exists. For those working on Regio initiatives, the legal opinion of the bank in Delitzsch-Eilenburg provides a welcome clarification that should help diminish the likelihood of legal problems for the Chiemgauer and other comparable initiatives.

The treatment of regional currencies for tax purposes

There are two questions regarding tax liability on Regio transactions: Should they be taxed at all? If so, which currency would be used to pay these taxes?

One of the main reasons against the taxation of Regio transactions hinges on their potential to solve social problems that otherwise would have to be addressed by the taxpayer. These costs should therefore be included in a comparative accounting scheme that would help to determine what taxes, if any, should be paid on Regio transactions. If the savings surpass the income from taxation, then all concerned—including the revenue service—would be better off if Regio transactions were tax exempt.

However, if the Regio is utilized for commercial transactions, then taxation can rightly be justified. It is important, therefore, to allow for the option of paying the tax in Regios, for this will determine whether or not the Regio gains general acceptance and is used to its full potential. Perhaps the most effective way to prevent the success of a regional currency is to require that all income taxes—regardless of whether the income comes from Euro or Regio transactions—be paid in Euros. The reverse is equally true: the best way to promote the success of the Regio is to advocate its use as a mechanism of payment of taxes and fees, giving businesses greater incentive to accept the Regio.

There are important reasons why the Regio should be accepted in payment of taxes and fees. First, these taxes benefit public services in the region. Second, they play a role in maintaining and creating jobs. And third, the positive social and economic repercussions of increased regional productivity reduce the need to spend tax money and help to improve regional economic conditions.

---

[11]Appendix A in *Regionawährungen: Ein neuer Wegw zu nachhaltigem Wohlstand*" (Regional currencies: A new path to sustainable prosperity) by Margrit Kennedy and Bernard Lietaer.

Finally, there is also a middle ground between taxing Regio income and exempting it from taxes. One could exempt a certain proportion of income (e.g., income under one thousand Regios or its Euro equivalent) because it costs more to tax such small amounts than it brings in. (That is how income is treated in SEL, a French complementary currency.) Another possibility would be to permit businesses to pay a certain percentage of their taxes in the regional currency.

A practical example in Chiemgau

One of the first attempts to introduce a regional currency in Germany is the “Chiemgauer.” Initiated as a complementary currency by the Waldorf School in Prien am Chiemsee, it uses an Australian voucher plan as its model.

In this model, all participants benefit. When somebody in Australia exchanges $100 in one of the "clubs" that have been started for that purpose, he or she receives vouchers with a value of $110. Someone who exchanges $500 receives vouchers worth $600. In contrast to the Australian model, with its 10% and 20% discounts, a discount is not given for purchasing Chiemgauer vouchers: however, the buyer can choose a non-profit organization to receive the 3% bonus that is granted if Euros are exchanged for vouchers.

The first buyers of the new currency were Waldorf School parents, who bought vouchers to support construction of an addition to the school. Since then, five non-profit projects have also become involved, and participants come from different parts of the region. Buyers accept an annual fee of 8% to guarantee circulation: four times a year a stamp worth 2% of the value of the voucher has to be attached in order for it to retain its nominal value.

The businesses that accept the vouchers in payment can exchange them for the national currency at a 5% fee, or they can use them for payment to other businesses, to employees, or to the publisher of the local newspaper, etc. If they pass the vouchers on, they won't have to pay the fee. For the majority of businesses, accepting vouchers is a matter of cultivating customer loyalty. This usually creates costs up to 10% of their gross turnover. Thus, accepting a small fee, which is tax deductible, to pay for a regional currency does not entail any additional expenses. Customers are motivated to go to stores where they can pay with the regional currency. More and more, businesses are realizing that they too can make payments in the regional currency—with the advantage that they don't need to pay the 5% fee for exchanging the vouchers for Euros. When students from the Waldorf School go to stores at the end of the month to change their accumulated vouchers into Euros, the shopkeepers are more and more unable to facilitate such an exchange because they have already spent them.

In Australia 70% of the vouchers were exchanged for the national currency during the first year, during the third year only 7%. Thus, the vouchers are being used as a complementary currency, and the exchange fee serves as an additional incentive for circulation.

Advantages of regional currencies

The effect on customers is obvious: wherever possible, they will pay with vouchers instead of Euros; this is exactly the intention. Participating businesses in Chiemgau are happy with the turnover. The issuing bodies' expenses for the voucher system are covered by the difference between the 3% bonus given to the associations which distribute the vouchers among their members and the 5% fee paid by businesses when Regios are changed back into Euros. The profit from the circulation incentive—the stamp of 2% of the value of the voucher—is negligible, as most businesses reintroduce Regios into circulation before the stamp is due. Any surplus held by the issuing body is donated to projects in the region that are deserving of support.

The advantage of such a concept is that Euros will be changed into regional vouchers only if, and as long as, they can be spent. This in turn serves as built-in security against the unlimited issuing of vouchers, which could lead to voucher inflation.

This is one of the main advantages of voucher currencies over so-called fiat currencies, which can virtually be created out of nothing—such as when the German Mark was introduced and 40 marks were paid to every person. It is certainly conceivable that a "regional currency reform" could come about by paying a certain amount in the regional currency per person. But today legal problems would probably arise, and furthermore, there is the danger of an unlimited increase in the amount in circulation. That is what ultimately caused the demise of the "credito" in many parts of Argentina; it had functioned phenomenally well nationwide for several months and helped millions of people to survive after the collapse of the national currency. But when one region printed an excess number of the "credito," the resulting inflation brought the otherwise ingenious scheme to a grinding halt.

With the Chiemgauer, we are not, in the strictest sense, creating a new currency but rather are taking advantage of the voucher model to address an additional social function: to advance regional development through a complementary means of payment based on a circulation incentive.

This idea has been adopted and is being applied at a surprising rate in numerous places in Germany.[12] There are essentially three reasons for this:

1. There are only a few legal avenues for creating a regional means of exchange that is simultaneously advantageous for all participants and therefore has the potential of being widely accepted.

2. Many individuals and groups are searching for ways to contribute to the solution of the current crisis.

3. There are many other reasons for the revitalization of the regional economy and its identity beyond the benefit of balancing the one-sided trend toward globalization. This includes initiatives for regional marketing of fresh food; renewable-energy cooperatives; management of bioregional water, waste water, and solid waste; greater rapport between producers and consumers; better services provided by artisans and small businesses; and a new sense of belonging or community.

The vision

The vision of a "Europe of Regions" has great fascination for many people. Instead of accepting globalization with all its negative and positive consequences—all wrapped up in one package, so to speak—they see the possibility of bringing about regional change, change that would be of direct benefit to those who have often been disenfranchised. For they see globalization not only in terms of the loss of their own freedom of choice but also in terms of their politicians' powerlessness in the face of giant corporations and the instability of the international financial system governed by the herd instinct of international investors.

Building a regional economy attempts to create a new basic principle for social and economic policy, and the introduction of regional currencies may prove to be one of the most powerful tools for the realization of this new order. Numerous existing regional initiatives and programs are the logical "natural partners" in this transition. There are today approximately 300 initiatives within the regional movement in Germany, more than 2000 Agenda-21 groups, and more than a dozen Leader+ projects (a program of the European Union that promotes regional development in rural areas). In addition to these local groups, another partner could be "the Committee for Regions,"[13] formed to defend the principle that decisions should be taken

---

[12] See www.regionetzwerk.de.

[13] Founded in 1991 as an independent body to respresent regional entities within the European Union and their interests in the process of defining common policies (http://www.cor.eu.int/de/prss/prss_5qu.html).

at the lowest possible level and to serve as a direct link between the regions and the European Community as a whole.

The current monetary system functions like a pump that sucks capital out of the regions where it is earned and pumps it into those regions where it gets the highest return—currently China, where about 70% of the available global capital is being invested. Therefore, it is of the utmost importance to geographically limit the circulation of money that exists first and foremost to meet the requirements of the region. To create a "small dam" or, better, a "semi-permeable membrane" to keep money in, may prove to be the only way for a region to maintain its own liquidity. In other words, if the new currency is to serve the region—in contrast to the current currency, which as a rule seeks the highest profit—its circulation must be limited to the region. Hans Diefenbacher discusses the importance of regional circulation in his examination of the various responsibilities facing the local and regional working groups of Agenda 21 when he says, "In order to prevent the exploitation or disturbance of the economic balance by influences outside the region, each region should have an additional currency—under certain circumstances, several—as well as independent savings and loan banks."[14]

Currently, our money is simultaneously a means of exchange, a standard of value or unit of account, and a way of storing value. The core problem is that as a means of storing value, it is associated with exponentially growing demand and unlimited mobility. And because nowadays investments in the capital market gain higher returns than investments in productive enterprises, less and less money flows to where jobs are being created. Therefore, the primary tasks of a regional currency should be to optimize its role as a means of exchange, as a unit of account (valid only within a geographically limited area), and as a storage of value designed exclusively to guarantee stable (not exponentially growing) investment values.

The main goals for a regional currency are:

- using available resources for the production of goods and services in order to match underutilized resources with unmet needs;
- reducing unemployment as a result;
- stopping the flow of locally earned income out of the region;
- and creating new financial possibilities that enable local governments to better carry out their responsibilities to their respective communities.

---

[14]Hans Diefenbacher, "Lokale Agenda 21: Zielsetzung, Nachhaltigkeit, Projekte" (Local Agenda 21: Aims, Sustainability, Projects") in *Zeitschrift für Sozialökonomie* 137 (2003), pp. 16-17.

Robert Musil (2004) uses many examples from the European Union to show that programs to promote regional development goals have consistently failed. He distinguishes between strategies initiated externally and internally to counteract the economic imbalance between urban centers and the rural periphery, concluding that the regional policies of the European Union, dominated in large part by neoclassical (Keynesian) theory, have not been able to curb the flight of capital, value creation, and human resources.[15] Even the internal strategies intended to promote regional development—by linking available resources and encouraging cooperation or engaging the public (the " bottom-up" approach)—have ignored a crucial factor: the money supply. Yet it is obvious that projects with relatively low profitability cannot be financed with monetary capital that is under ever-increasing pressure to provide high returns.

What comes next?

In times when the political sphere has failed to present any legitimate solutions to our current crises—from the struggle against terror to the various "holes" in government budgets at the national and local level, from the privatizing of vital infrastructure such as power supply, drinking-water, waste-water treatment, and public transportation to reducing unemployment—we must give unconventional analyses and ideas a chance to take root. In the face of uncontrolled globalization, I believe the time is ripe to revitalize the region as a new reference point for the individual, and it is within the framework of revitalization that the theme of "complementary regional currencies" must be discussed.

Over the past two years a group of about a dozen professors of micro- and macroeconomics from Germany, Austria, and Switzerland have written a new report for the Club of Rome (Brunnhuber et. al. 2003). Presenting scenarios and design possibilities for financial markets in the future, it discusses how we are going to manage our economy. It fills the gap left by the first Club of Rome report, which initiated the debate about sustainability thirty years ago. One of the report’s main authors, Dennis Meadows, completely overlooked the subject of money. He regarded it as a value-neutral system of accounting with no impact, either positive or negative, on issues of sustainability. The new report identifies the introduction of complementary local and regional currencies as an important step toward the realization of sustainable economy.

---

[15] *Geld, Raum und Nachhaltigkeit* (Money, Space, and Sustainability) by Robert Musil.

It is crucial that we first gain experience from the introduction of regional currencies, initially in only a few regions, before the enthusiasm that the idea inevitably breeds produces immature attempts and avoidable mistakes that will provide opponents with arguments against regional currencies.

The purpose of this essay is to stimulate a discussion that will provide both the economic and political spheres with new and fruitful insights that demonstrate the positive potential of implementing complementary regional currencies.

Literature:

Brunnhuber, Stephan and Harald Klimenta. *Wie wir wirtschaften werden: Szenarien und Gestaltungsmöglichkeiten zukunftsfähiger Finanzmärkte* (How we will manage our economy: Scenarios and design possibilities for financial markets with a future). Frankfurt: Überreuter Verlag, 2003.

Creutz, Helmut. *Das Geldsyndrom* (The Money Syndrome). Munich: Wirtschaftsverlag Langen Müller/Herbig, 1993.

Gesell, Silvio. *Die natürliche Wirtschaftsordung durch Freiland und Freigeld* (The natural economic order through free land and free money). Lauf bei Nürnberg: Rudolf Zitzmann Verlag, 1949 (originally published in 1916).

Kennedy, Margrit. *Interest- and Inflation-Free Money*. East Lansing, Michigan: Seva International, 1995.

Kennedy, Margrit and Bernard Lietaer. *Regionalwährungen: Ein neuer Weg zu nachhaltigem Wohlstand* (Regional currencies: A new path to sustainable prosperity). Munich: Riemann Verlag, 2004.

Lietaer, Bernard A. *Das Geld der Zukunft: Über die destruktive Wirkung des existierenden Geldsystems und die Entwicklung der Komplementärwährungen* (The money of the future: The destructive effects of the existing money system and the development of complementary currencies). Munich: Riemann Verlag, 1999.

Lietaer, Bernard A. *Mysterium Geld: Bedeutung und Wirkungsweise eines Tabus* (The mystery of money: Significance and effects of a taboo). Munich: Riemann Verlag, 2000.

Musil, Robert. *Geld, Raum und Nachhaltigkeit* (Money, space, and sustainability). Lutjenburg: Verlag für Sozialökonomie, 2004.

Rose, Mathew D. *Eine ehrenwerte Gesellschaft* (An honorable society). Berlin: 2003.

Soros, George. *The Crisis of Global Capitalism: Open Society Endangered*. New York: Public Affairs Press, 1998.

About the author:

Margrit Kennedy is an architect with a Masters Degree in Urban and Regional Planning and a Ph.D. in Public and International Affairs. She has published books, articles, and reports for UNESCO and OECD on community school planning and building. Her work on women and architecture, urban ecology, permaculture, money, land, and tax systems is recognized internationally. She has also practised architecture and urban planning in Brazil, Nigeria, Scotland, the United States, and Germany. Since 1985 she has been living in the eco-village of Lebensgarten in Steyerberg, Lower Saxony. From 1991 to 2002 she was a professor for Ecological Building Technologies in the Department of Architecture at the University of Hanover.

Projects in ecological architecture for the International Building Exhibition Berlin in 1987 led her to the discovery that it is virtually impossible to carry out sound ecological concepts on the scale required today without fundamentally altering the present money system or creating new complementary currencies. Her book *Interest and Inflation-Free Money: Creating an Exchange Medium That Works for Everybody and Protects the Earth* was first published in 1987 and has since been translated into twenty languages. A second book, written with Bernard Lietaer, *Regional Currencies: A New Path to Sustainable Abundance*, will be published by Access Foundation (Boulder, Colorado) in 2005.

As a consultant, she is helping to initiate sustainable regional money systems in Germany, Austria, and several other countries. Since 1988 Margrit Kennedy and her husband, Prof. Declan Kennedy, have conducted fourteen international workshops and conferences dealing with the different aspects of monetary reform.

1Mathew D. Rose (2003) illustrates this with the example of the “Berliner Bankgesellschaft” in his book *Eine ehrenwerte Gesellschaft* (An honorable corporation).

[2]Pointed out by Jakob von Uexkuell at a conference called "Die spirituelle Dimension wirtschaftlichen Handelns" (The spiritual dimension of economic actions), Würzburg, Conference Center, 9 November 2003.

[3]See Margrit Kennedy, *Geld ohne Zinsen und Inflation* (Interest- and Inflation-Free Money*)*. A more detailed discussion of these models can also be found in chapter 4 of *Regionalwährungen: Ein neuer Weg zu nachhaltigem Wohlstand* (Regional currencies: A new path to sustainable prosperity) by Margrit Kennedy and Bernard Lietaer.

[4]All participants at the founding assembly of the Regio Network in Prien/Chiemsee on September 29, 2003, agreed on this term, which is to be supplemented in each region with a specific regional designation such as Chiemgauer, Mangfalltaler, Justus, Kreiser, Halvel-Taler, Heller, etc.

[5]If, for example, a business does not accept the Euro as a means of payment for a particular item, the potential buyer is entitled to take that item with her.

[6]Guaranteed circulation signifies that the original function of money as a means of exchange is taken into account. Obviously, cash is not a profitable means for saving, yet hoarding cash is a fact of life, even today. Although regional limitation and linkage to national currency are disadvantages, they nevertheless encourage circulation. These incentives will not be enough in the long term, however, and it is essential that creative mechanisms to guarantee circulation be integrated from the very beginning, if possible, into a Regio initiative. The sooner the innovation of a genuine guaranteed circulation is included, the better.

[7]This paragraph was written for the Regio Network in collaboration with Christian Gelleri.

[8]James Stodder, "Reciprocal Exchange Networks: Implications for Macroeconomic Stability," Rensselaer at Hartford, Hartford, Connecticut, (stodder@rh.edu), August 2000. An earlier version of the research results is found in the proceedings of the Engineering Management Society (EMS) Conference in Albuquerque, New Mexico, held by International Electronic and Electrical Engineering (IEEE).

[9]Chapters IV and VIII in *Regionalwährungen: Ein neuer Weg zu nachhaltigem Wohlstand* ("Regional currencies: A new path to sustainable prosperity") by Margrit Kennedy and Bernard Lietaer.

[10]There certanly are not yet many bankers who can publicly support such a view without risking their job. But the savings bank in Delitzsch has a long tradition of social committment. In the middle of the nineteenth century, during a time of crisis not unlike our own, a government representative from Delitzsch named Schulze proposed and carried through—against strong political resistance—the founding of today's "Volksbanken" as cooperative banks.

[11]Appendix A in *Regionawährungen: Ein neuer Wegw zu nachhaltigem Wohlstand*" (Regional currencies: A new path to sustainable prosperity) by Margrit Kennedy and Bernard Lietaer.

[12]See www.regionetzwerk.de.

[13]Founded in 1991 as an independent body to respresent regional entities within the European Union and their interests in the process of defining common policies (http://www.cor.eu.int/de/prss/prss_5qu.html).

[14]Hans Diefenbacher, "Lokale Agenda 21: Zielsetzung, Nachhaltigkeit, Projekte" (Local Agenda 21: Aims, Sustainability, Projects") in *Zeitschrift für Sozialökonomie* 137 (2003), pp. 16-17.
[15]*Geld, Raum und Nachhaltigkeit* (Money, Space, and Sustainability) by Robert Musil.