Administrators of several large municipalities recently asked the Schumacher Center for a New Economics if local currencies could be used by municipalities as part of a local economic recovery. And if so, how?

A reading of the US Constitution, though not conclusive, would indicate that states and municipalities in the US are restricted from issuing their own currencies, but that does not prohibit them from working with existing local currency systems. Privately issued currencies are protected by the US Constitution as long as the currency does not look like the US dollar (concerns with forgery) and as long as the currency has an exchange rate with US dollars (so that the value of transactions can be taxed).

At the Schumacher Center we favor a non-profit, regionally based, open-membership issuer instead of a for-profit issuer. We have modeled such a program in our own region of the Berkshires. Called BerkShares, the program works in cooperation with nine branches of three local banks. The currency is exchanged for federal dollars at any of the nine branches at the rate of ninety-five federal dollars ($) for one hundred BerkShares (B$). The federal dollars remain on deposit at the banks in deposit accounts of BerkShares, Inc. the non-profit managing the program. The deposit accounts are there for merchants that take in more B$ then they can recirculate and wish to convert back to $.

The role of BerkShares, Inc. is to design the currency, distribute supplies of notes to banks, sign up businesses to accept in trade, maintain a website and business directory, promote businesses using the currency, facilitate exchanges between banks to ensure sufficient supply of the notes and sufficient supply of federal dollars for redemption, train businesses and their bookkeepers in best practices for recording transactions, educate the public about the reasons for supporting local businesses, and serve as the public face of the currency in interactions with the media.

For purposes of the discussion below, we are assuming municipalities would engage with currency programs similar to BerkShares – non-profit, regionally based, open membership organizations issuing a paper-currency backed by federal dollars on deposit at local banks. A directory of such currencies is here.
Use by municipalities:

**Budgeted items:**

- Donations – Discretionary donations made by the municipality to cultural organizations, sports teams, shelters, and food pantries, for instance, could be made in a local currency rather than Federal dollars. The use of a local currency for this purpose would ensure that those donated funds recirculate with local businesses rather than leaving the region for big box stores.

- Local Procurement -- Whenever possible the municipality could move procurement to local businesses that accept the currency, supporting those businesses that are also property tax payers.

- Bonus Payments – Employees are normally under contract and the contract would require payment in “coin of the realm,” or federal dollars. So payment in local currency could only be done if voluntary. However bonus payments outside of contract could be paid in local currency.

A division of the Service Employees International Union (SEIU) in St. Petersburg, Florida advocated for the payment of bonuses in a local currency. SEIU knew it would be their job to educate union members about the importance of supporting local businesses and saw the payment in local scrip as a way to accomplish this. However there was not at the time an established local currency in the region, so the program did not go through.

- Requests for Proposals – when municipalities are writing RFPs for work that needs to be performed, they could state that the proposals offering to accept partial payment in a local currency would have preferential treatment. Such a provision would then favor locally owned businesses that would have better knowledge of how to recirculate the scrip.

**Process for obtaining local currency for these budgeted items:**

The municipality would have to exchange federal dollars for the currency at the participating banks like any other user of the currency. Or the municipality could allow voluntary limited payment of taxes and/or other fees or licenses in local currency to ensure a revenue stream to meet the anticipated expenses.
Additional to Annually Budgeted Items

A Municipality could BORROW local currency from the non-profit issuer. As there is “no cost” to the issuer, except for initial design and printing costs and management of the system, such a loan could be at 0%. Though the local currency should charge a one-time administrative fee – perhaps equal to 5%, paid out over the course of the loan. So a million dollar loan in the local currency for 10 years might carry a $5,000 per year payment to the local currency issuer.

Note that borrowing of the currency might have to go through a local participating bank to meet regulatory requirements. One of the advantages of the current BerkShares program is that the point of issue of the currency is at a bank. BerkShares, Inc. does not currently exchange federal dollars for B$ nor visa versa. That can only be done at one of the 9 branches of our three local participating banks. The banks are already regulated financial institutions. And they have introduced stringent “know thy customer” protocols when doing BerkShare exchanges.

This has meant that BerkShares, Inc. does not need to register as a Money Services Business (MSB) an important advantage. Crypto currencies and other currency platforms not working with banks must register as MSBs, a costly and onerous process. If a municipality wanted to “borrow” local scrip to fund emergency relief or an infrastructure project, technically the loan would currently have to be through one of the participating banks, placing another layer in the cost of the money. Still affordable, but another layer.

For the municipality, the robust circulation of a local currency would mean more local business transactions and so more tax revenue to the municipality, thereby justifying the investment in the management of the currency and the fees to the bank.

To place a million of new currency into circulation would require demonstrating ample opportunities for recirculation. The US dollar reserve held by BerkShares, Inc. in checking accounts at community banks, gives merchants the confidence that ultimately the currency can be redeemed for dollars. The municipality’s acceptance of local currency for tax payments would assure individual and business users of a redemption option of last resort. The municipality might limit its acceptance of payments in any one year to match the loan repayment terms. So it might say that any one tax payer could pay 10% of taxes in local currency – currency that it could earn or exchange at the banks at a 5% discount.
Borrowed currency could be used to:

- Build needed infrastructure providing local employment at the same time. (A local Community Conservation Core.)

- Make emergency payments to individuals and businesses in need during this pandemic period. Spending of payments would of necessity be local, strengthening businesses and the local tax base.

In summary, a municipality’s partnership with a local currency system would provide it with a tool to better determine its own economic future and contribute to the vibrancy of its local economy.

Where a local currency is not yet operational, a municipality could incentivize the development of one through grant support. An existing local non-profit, such as an innovative Community Development Corporation, might serve as the host. Information about structuring a BerkShares-like program can be found at www.berkshares.org.