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The case of Greece

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Local Exchange Trading Systems (LETS) as a response to economic crisis: The case of Greece

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ABSTRACT

In this paper, after defining the three basic types of Complementary Currency Systems (CCS) we present and support the view that under certain conditions, they can offer significant relief during financial and banking crisis such as the one currently underway in Greece. The CCS's under review operate in parallel and not against a county's official money and can lead to increased transactions , production level and employment. We next present the current environment in which CCS operate in Greece and briefly describe their characteristics. A survey is conducted among CCS' members using a closed type questionnaire and the results are presented and analysed. The focus of the empirical research is to identify the driving force behind CCS membership, motives, values and profile of the members as well as identify the characteristics of successful CCS's. The results are analysed for the sample as a whole but also between two subgroups, LETS and Time banks. In most questions, the differences in opinions among the two groups are not statistically significant, with the exception of a few questions. Overall, from the pattern of the responses among the two groups, the LETS members emerge as more pragmatic and less ideologically motivated than those of Time Banks. Still, it is evident from survey results that the strongest motive for participation in such schemes, in crisis stricken Greece as well as elsewhere, is not the need for goods and services but the need to participate, offer and feel empowered. Setting this finding aside, we maintain that a favourable and clear tax regime could encourage participation not only of the altruists in the society but also of local businesses and the truly needy and thus contribute to the stabilization and rebuilding of the economy.

Key words: Complementary currency, financial crisis, solidarity economy, Greek Economy.

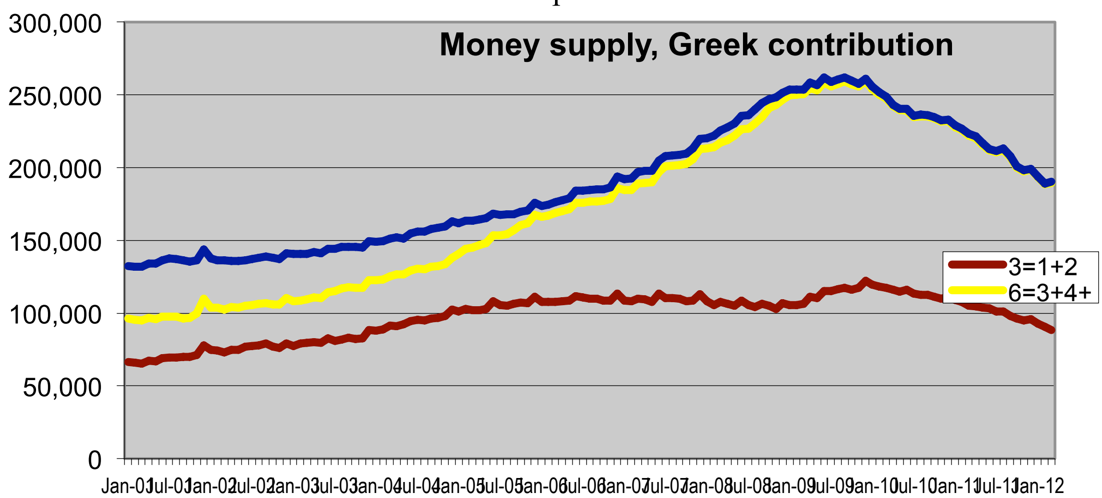
1. Background and context of the research.

The economic crisis in Greece, now in its 5th year, has preoccupied international media mostly in relation to its potentially negative effects for the Euro economy and the European banking system. The severe consequences to the Greek population of the austerity policies imposed on the country by its lenders and the exploration of alternative solutions to alleviate the hardship at the local level, have not been sufficiently researched either by academics or policymakers.

Until the debt crisis hit Greece in 2009, the country ranked 20th among 40 rich OECD countries in terms of per capita GDP, which at almost 24,000 stood at 85% of euro area level and 92% of EU level. The austerity measures aimed at reducing the public sector deficit, coupled with the severe money supply and credit contraction, resulted in a deep recession. Some figures are indicative: Unemployment now stands at 26%, while over 50% of the young cannot find work. Small businesses are closing down daily. Real disposable income shrank by 10,3% in 2010 alone with the cumulative loss of output exceeding 25% of GDP and continuing its downward spiral. Homelessness, a marginal phenomenon in this country up until 2009, is taking unprecedented proportions and 250,000 people are fed daily by charity organizations. The present crisis is projected to continue well into 2013 and beyond. Greece's membership in the euro does not make things easier, on the contrary, it excludes a number of macroeconomic policy options that could have been available otherwise. The monetary policy of the ECB is targeted at price stability (inflation target 2%) and is unsuitable for the problems of the periphery countries such as Greece. While Euro nominal and real interest rates are at record low levels, this is not helping the Greek economy at all: The interest rate is irrelevant when there is no liquidity or credit availability. The bulk of the bailout money, contrary to popular perceptions outside Greece, goes towards servicing the country's loans and strengthening the banking system. (Lapavitsas, 2010).

We maintain that the depression in Greece has been exacerbated by the contraction in both the money supply (liquidity) and credit available. As presented in Graph 1, below, the money supply available in the Greek Economy has contracted severely.

Graph 1



Source: Bank of Greece

Amid this gloom, an interesting phenomenon is quietly taking place at the grass-roots level: During the last two to three years, groups of people are discovering the merits of self organization and the potential of a solidarity economy. It started in the centre of Athens, during the "occupy" movement, in the spring of 2010, taking the form of a "time bank" organization. Since then, dozens of community currency systems (CCS) and other solidarity groups have sprang all over the country. Last October, the first "Festival of Solidarity and Cooperative Economy" was successfully organized in Athens. About 14 CCS groups and a number of other collective initiatives participated, exchanging ideas and best practices and reinforcing one another.

Several books and papers focus on the idea that modern monetary systems are prone to crises and that CCS are a solution to social economic and environmental problems. In every textbook of monetary economics, money is defined as a widely accepted means of exchange for goods and services, whose contribution is precisely to facilitate transactions among the participants of the economy. Its other functions (store of wealth, measure of value, means of future payments) are secondary, can be separated and/ or shared with other instruments. Bernard Lietaer (2009 and 2011) and Tomas Greco Jr.(2001), leading experts in money issues, have among others,[1] theorized and adequately explained the downside of current monetary arrangements. Both Lietaer and Greco argue that the way todays' official monetary systems are operated and controlled defeat the very purpose of money. The artificial scarcity imposed in order to maintain price stability, contributes to financial crises, favours wealth accumulation by the few, destroys employment, businesses and productive economic activities and can cause immense hardship to societies. The fluctuations in interest rates, the very existence of interest according to many, are factors that are more detrimental to sustainable growth and social harmony than the risk of inflation. Complementary currencies are the answer to these systemic problems, irrespective of the state of the business cycle according to both above researchers. In fact, Bernard Lietaert in a recent interview posted on a Greek financial portal,[2] argued that complementary currencies are the answer to the Greek economy's current problems.
Sally Goerner, Bernard Lietaer and Robert Ulanowicz (2010) also discuss the shortcomings of conventional approaches to managing banking crises (i.e. nationalization of problem assets), and they explain why these typically fail to address systemic causes. The authors argue that a better solution would involve the adoption of complementary currencies, and the government's acceptance of these currencies in partial payment of taxes during a period when banks are not in a position to fully finance the real economy.

2. Purpose and scope of the research.

In the theoretical section of the paper, based on a brief literature review and using historical examples from past crises in other countries, we conclude that various forms of alternative / complementary currency systems (CCS) represent a viable way to sustain local communities and businesses in financial crisis conditions, avert humanitarian disasters and maintain a degree of social cohesion.

[1] Goerner Sally, Lietaer Bernard, McLaren Nadia & Ulanowicz Robert E. (2010)
[2] www.capital.gr February 7, 2013

We start the theoretical section by defining and categorizing complementary currency systems based on the literature. We will focus on the organizational and environmental elements that contribute to the success of CCS in a developed country context and will propose ways to measure the degree of their success. We will then present the newly established Greek CCS, their characteristics and the legal, tax and regulatory environment in which they operate. As this movement is very recent in Greece, the institutional framework is in practice non-existent or potentially hostile.

In the empirical research section, we will present the results of a survey among the members of Greek CCS, and we attempt to establish whether the necessary elements of success are present, what are the main driving forces of the members, whether they achieve their goals, their expectations as well as any perceived shortcomings and areas for improvement.

We will conclude by making recommendations both on the organizational level of CCS's and the legal and regulatory framework.

3. Complementary currency systems- an overview

"Money matters. The way money is created and administered in a given society makes a deep impression on values and relationships within that society. More specifically, the type of currency used in a society encourages - or discourages - specific emotions and behaviour patterns." Bernard Lietaer, (1999)

Community currencies are local initiatives which let people exchange goods and services without using conventional money. They are operated in parallel to the official currencies, therefore they are also referred to as complementary currencies.
There are three main types of community currencies currently operating in different parts of the world.

1. Local Currencies. These are locally issued notes or tokens or script, in physical form, circulating freely among individuals and businesses in an area. A well-known example of this type is the 'Hours' system first developed in Ithaca, New York State, and now replicated in 20 cities across the USA with variants in other countries. The notes are utilized in the same way as national currencies to purchase goods and services in the locality. Participation is based purely on exchange, and is facilitated by a directory, which lists businesses that accept hours in total or part payment for goods and services. (Boyle, 1999). Such schemes have been used in periods of economic crisis and war, when national currencies were scarce or unreliable. A recent example is in Argentina with a scheme that grew very fast, was very successful[3] and fell victim to its own success as the notes were eventually counterfeited and lost credibility. (Gomez, 2012). Nevertheless, one of the most successful and long living case of local currency system can be found in affluent Zurich. The WIR, turning over the equivalent of almost 2 billion CHF per year, has been active and servicing the local business community for over 80 years. Local currencies of this type are not present in Greece, it is worth mentioning though that last fall, when negotiations with the Troika seemed to fail and the risk of bankruptcy of the Greek government appeared high,

[3] Researchers estimate that household consumption could be increased by up to US$600, compared to the minimum wage of US$300 in 2000 (Primavera, 2000:6).

several Greek and foreign economists proposed a dual currency scheme with the euro serving for international payments while IOU notes issued by the Greek government could be used to pay local public employees and suppliers and thus circulate in parallel with euros.

2. Local Exchange Trading Systems or Schemes (LETS). The second type of community currency takes the form of purely notional credits and debits in a set of accounts which keep score of trade in goods and services among members. They are a form of 'mutual credit', meaning that the currency is issued by individual users and is generated by the act of exchange itself. The best known community currencies in the North are of this type: LETS have been widely adopted in the UK and Canada, with variants including SEL in France, and Green Dollar Exchanges in Australia and New Zealand. LETS are local associations whose members list their offers and requests for goods and services in a directory and then exchange them at a price negotiated in units of local virtual currencies. Most often the virtual currency is at par with the official one in order to facilitate pricing and tax calculation. Members contact each other privately to arrange trades, notifying a central record-keeper of debits and credits to their accounts. In this way people can access goods and services in exchange for offering their own skills and time, without requiring money in the form of official currency. This is the predominant form of complementary currency schemes established in Greece in recent years.

According to Seyfang Gill, (2001) even though LETS aim to promote local economic regeneration, they have remained small and marginal to the economic needs of most members, and have not been successful in spreading into deprived areas or attracting widespread participation from socially excluded groups or from businesses. This is partly a reflection of the non-economic objectives of most members and partly the result of the policy context in which these local currencies operate --namely relatively high levels of public spending and welfare support, and the threat of loss of state benefits for unemployed LETS participants. LETS therefore responds primarily to a desire to reconnect to community, and build personal contact and reciprocity into everyday social and economic relationships. (Seyfang, 2001b). The above statement will form one of the hypotheses to be tested in the following section using the survey responses.

3. Time banks. The third type of community currency is service credits or time banks. As the name suggests, these schemes use time as the alternative currency so that a set number of Time units are earned for each hour of service offered to the scheme, from a whole range of activities. These can be stored for future use, donated to other members, spent on other services available on the scheme, or increasingly, on practical goods such as food, refurbished computers or with mainstream businesses. Time banks coordinate the supply and demand for services from participating members and enterprises. There are now about 200 time banks in the USA, and similar schemes in the UK, Germany, Sweden and Japan; (Boyle, 1999). These schemes value and reward community participation, and acknowledge the efforts of people on the margins of the conventional economy, seeking to build social capital through face- to-face contact and mutual support. There are a significant number of time banks in Greece; therefore we will compare their effectiveness in achieving their goals against LETS.

In order to assess a particular CCS of any type, we must measure its success in each of the several dimensions they serve: economic, social, ethical, and psychological. In the context of this paper, we will focus on the economic dimension, which can be measured in a variety of ways. The most obvious used by many researchers is the number and value of transactions per member in a given period. Alternatively, we can set a threshold, in the form of a percentage of the poverty level[4] income that can be reliably covered by network participation. Three questions (15,16 and 17) in our questionnaire serve this purpose.

3. Complementary currency networks in Greece.

Before the year 2010, Complementary Currency networks were practically unheard of in Greece. In her dissertation, Eirini Sotiropoulou (2012) lists 33 groups and as of March 2013, we have identified 20 LETS and 11 Time Banks functioning all over Greece, with a web page and contact details, listed in Annex I. Links to most CCS operating in Greece can be found at www.lets.net.gr and www.antallaktiki.gr, both of which are functioning exchange groups. The questionnaire has been sent by e-mail to all of them but the response rate has been poor (see section 4 below). The task of contacting each of the groups individually by phone, obtaining their trust and identifying their critical characteristics (time of establishment, membership, legal form, type of goods and services and volume of transactions, administration, basic rules of operation) and the level of their development is underway by one of the authors (Thanou Eleni)[5] but is not yet complete at this stage. Therefore we will proceed by examining the institutional and regulatory context in which CCS can operate in Greece, identifying positive and negative influences.
Regarding the legal form of a CCS, three options are possible: The first is the legal form of an Association (Somateio) which requires a minimum of 20 founding members, no minimum capital but needs to be approved by court, which is a typical procedure but costly (over 500 euros, due to obligatory lawyer involvement) and time consuming (over 6 months). The second and most widespread form is that of an informal union of persons and companies. It mirrors the Association format but without court approval, hence it avoids all costs and formalities but has no legal presence, i.e. it is non-existent for the law. Both above forms require a Katastatiko (bylaws) describing the way the group will be managed, its governing bodies (general assembly of the members, management committee) and decision making process, as well as a Rulebook (kanonismos) defining transaction rules and code of conduct of the members. Member admission is subject to rules and requirements that differ among groups, as it is up to the members to decide.

The third type is the establishment of a non-profit limited liability company. This is