The Moral Economy of Parallel Currencies

An Analysis of Local Exchange Trading Systems

By Mark S. Peacock*

Abstract. This article offers a monetary analysis of Local Exchange Trading Systems (LETS) and examines both their moral and economic significance as well as the way in which these two aspects may conflict. After considering LETS' principles and history, I review three monetary theories in order to ascertain how one might best explore these phenomena. By drawing on the "Chartalist" tradition in monetary theory, I show (1) how strongly oriented LETS are to the formal market economy, from which, it is held, they detach themselves, and (2) that they do not effect a return to barter or an abolition of money, as is sometimes claimed. Both points become clear when one pays due attention to the primary function of money as money-of-account. In the final section, I consider LETS empirically and compare their structural potentials with their concrete form. LETS' members are motivated less by pecuniary gain than by the desire to build community and realize certain values. Participants have little motivation to expand LETS, which are therefore destined to remain small and ineffectual in offering an alternative to the unemployed and less well-off. Indeed, were LETS to grow in size, the moral commitment required of members would come into conflict with the growing financial interests at stake.

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I

Introduction

IF THERE ARE PHENOMENA deserving the mantle *socioeconomic*, then a strong candidate is the Local Exchange Trading System (LETS). In this article I examine LETS according to both their monetary structure and their membership. By doing so, their *socioeconomic* nature becomes clear, as does the way in which the "socio" can stand in a relation of tension to the "economic." That is, LETS are economic schemes through which members can enrich themselves materially; they are also initiatives through which nonmaterial and postmaterial aims and values can be furthered. This tension comes to the fore when one considers two oft-voiced claims made on their behalf:

1) LETS offer economic opportunities to the poor and unemployed that are forbidden to them in the primary labor market in which they are badly placed;
2) LETS "decouple" themselves from the market economy by establishing communal enclaves in which relations of trust and intimacy can be fostered and a "gentler" form of economy pursued.

To realize Claim 1, LETS would have to expand and their members intensify their activity so that those in need become able to satisfy their basic requirements through LETS. To maintain intimacy and trust between members (Claim 2), LETS must remain small. Related to Claim 2 is a further claim that LETS "decouple" themselves from the market economy. The way in which they may be said to do so is a theme of this article.

In Section II, I look at the history of LETS, their principles, and scope. Section III reviews three approaches to money—Carl Menger's, the "Chartalist" tradition's (which includes thinkers such as Georg Friedrich Knapp and John Maynard Keynes), and the neoclassical perspective's. By delineating these various views on the origins and functions of money, I conclude that the Chartalist approach offers much promise in shedding light on LETS. The light is shed in Section IV, in which I analyze LETS' monetary structure, showing that they are not only intimately and necessarily connected to the market economy, but that their currencies assimilate a function—namely, that of unit-of-account—from the national currency of the country in which they are established, thus making LETS parasitic on the market economy. This weakens the "decoupling" claim alluded to in the preceding paragraph. Furthermore, I argue that LETS cannot be viewed as a type of barter, since their unit-of-account (given by the national currency) serves as a *numéraire*, whereas barter is to be understood in terms of coincidental exchanges in which the terms-of-trade are worked out in terms of the goods exchanged, not in terms of an abstract accounting unit. I conclude Section IV with a discussion of money's store-of-value function and examine Silvio Gesell's work, which is sometimes held to be an intellectual and practical forebear of the LETS movement. I argue that Gesell's "accelerated money" could indeed play a role in LETS by increasing their currency's velocity of circulation. Whether such a move would be initiated by LETS' participants is, however, quite another matter. To answer this question necessarily requires that one look at the composition of LETS according to their membership (Section V). Given their small size, it is not surprising that LETS offer no significant pecuniary gain. This does not bode well for those—the poor and unemployed—who might seek, in LETS, a means of providing for their basic needs. The data reveal that LETS' members are typically gainfully employed in secure jobs and well-educated; these are not people in need of an alternative to the market for material gain. Rather, they are seeking a more communally-oriented existence based on relations of trust, often coupled with a commitment to certain values. Herein lies one source of the claim that LETS "decouple" themselves from the market economy. I consider other ways in which members endeavor to erect a shield between LETS and the market economy. One way is through the prices of LETS' services, which are often "fairer" than those of the market. This practice, I argue, creates a tension between LETS' "economic" (i.e., financial) and "social" (or moral) aspects, the latter consisting of members' commitment to particular lifestyles or values. If LETS remain financially small, this tension will not be pronounced; were, however, LETS to increase in size (as many proponents advocate), the "fairer" price structure would be more difficult to maintain because the incentive to "defect" from LETS and earn a higher wage in the market would increase. Only if members command large doses of that scarce resource "good-will" will LETS be able to grow and simultaneously offer their members a real alternative to the market.

II

LETS: History, Principles, and Practice

THE PHILOSOPHY OF LETS IS SIMPLE: they are nonprofit organizations based on a local currency. As a participant, I receive an account from the "bank" (with zero balance) and a directory of other members with the services they offer. Suppose I have my kitchen painted by another member; she does the work, whereof we both inform the bank, which then deducts the agreed-upon sum from my account and adds it to hers. LETS' money does not "change hands" in the corporeal sense; it has no corporeal existence as such. Trades, especially those involving materials acquired by cash, may be "mixed," or in other words, part cash, part local currency. LETS allow the two exchange partners to set the price; some encourage the principle of "an hour's work for an hour's work," but none insists thereon.[1] If the transaction is my first, my account falls into debit; of necessity, a LETS has an equal amount of credit and debt, the latter being interest-free and subject to a ceiling to prevent excessive debt accumulation. Each account is subject to the scrutiny of all members of the LETS. The goods and services offered are limited by the usually small membership. Typically, the following are likely to be offered: decoration, renovation, gardening, transport, housework, babysitting, sale of home produce and handiwork, typing, tutoring, general repairs, and running errands.

The first LETS was initiated in British Columbia in 1983. Its founder, Michael Linton, issued a local currency ("the green dollar," tied to the Canadian dollar at a rate of 1:1) and attracted 300 members in a short space of time. Over the first two years, the system's turnover amounted to green $500,000.[2] The idea spread to other areas of the Western world, such as Holland, Germany (with over 250 LETS), and Great Britain. An indication of their popularity can be gleaned from their rapid growth in Great Britain where, in 1992, there were five LETS, and in 1995, 350 with a total membership of 30,000 and a turnover of £2 million. The largest LETS is in Sydney, Australia, with over 1,000 members and a turnover equivalent to Aus $400,000.[3]

While these figures indicate LETS' popularity, they may exaggerate their significance; in terms of membership and turnover, LETS are microscopically small. Furthermore, "membership" includes many whose annual participation rate does not exceed a few hours. A recent study of LETS in Germany estimates the monthly per capita monetary turnover to be only 20 Deutsche Marks.[4] Let us now turn to the theory of money to ascertain how LETS may be most appropriately analyzed.

III

Money: Three Accounts

In this section I present and compare three approaches to the origins and functions of money before considering which has the most to proffer in accounting for LETS' monetary structure.

A. Means-of-Exchange and the Origin of Money: Carl Menger

An approach that ascribes primacy to the medium-of-exchange function of money is Carl Menger's. According to Menger, money emerges from barter, itself a somewhat impractical way of appropriating goods for consumption. That is, to obtain an object of consumption via barter, two conditions must hold:

1) that I possess a product, A, having for me a lower use-value than another, B, which is in the possession of another person, for whom B is of lower use-value than A;
2) that I and the other meet to conclude an exchange.[5]

The satisfaction of these conditions is not a likely eventuality, avers Menger, and hence many traders will be unable to reap the potential gains of trade in a barter economy. To overcome the difficulties of barter, traders begin to exchange their own products, not for others that they wish to consume directly, but for those that have proved to be more "saleable" (*absatzfähiger*) than those that they currently possess.[6] The more *absatzfähig* a product, the greater the ease with which a trader can exchange it for other objects. Hence, even if an armorer (Menger's example) has no wish to consume corn, he would be advised to exchange his armor for corn if he can exchange corn for objects that he *does* wish to consume with greater facility than he could exchange them for armor. In this manner, the armorer approaches his final consumption goods via perhaps a series of intermediate exchanges in which he divests himself successively of less saleable products for ones with greater salability. Upon beholding the success of the armorer in obtaining his final goods of consumption with a facility and alacrity previously unknown, other traders will do likewise. Through this process of emulation, one product—the most saleable—comes to be desired *for* its salability rather than its other useful qualities; this good becomes money. Money, Menger impresses, is neither the product of explicit agreement between economic subjects, nor of legislation, but is the result of actions undertaken by individuals who are concerned only with their own economic interest.[7]

Central to Menger's account is the notion of "uncertainty."[8] What characterizes a high degree of salability (*Marktgängigkeit*) is a general and constant demand for a particular product.[9] Not only are more saleable products easier to dispose of in exchange transactions, they are easier to dispose of at "economic prices." To understand what Menger means here, consider barter. A particular seller may encounter a multitude of potential buyers for whom the product she wishes to sell is a use-value, yet the need to satisfy the two conditions (given in the previous paragraph) narrows her options considerably. If, however, there exists a generally recognized medium-of-exchange (money) for which she can sell her product, our trader can exchange her product for money with *any other person* who is willing to part with this medium-of-exchange, not just those who happen to be in possession of a product that she wishes to consume. Whereas a barter-trader encounters at best a sparse collection of potential exchange partners, a trader who can avail herself of money stands before a myriad of buyers with whom she can exchange without the necessity of having to find one who disposes over an object that she covets for its use-value. Similarly, each buyer who possesses money faces a greatly increased number of sellers, each of whom is willing to accept this medium in exchange. Buyers will thus be able to choose among sellers and sellers among buyers. Although competition may not be coterminous with the development of money, notes Menger, the latter increases the intensity of competition to an enormous extent. The prices that arise under conditions of increased competition are "economic" rather than "coincidental." That is, they are the result of the activity of all those participants in a market who buy and sell a particular item, not merely of two individuals who happen to stumble upon each other, happen to have products that the other desires, and negotiate a more or less *ad hoc* rate-of-exchange on the spur of the moment.[10]

Menger proceeds to argue that a commodity owner will, with greater certainty, be able to divest himself of his products at economic prices the more saleable those products are. In other words, the price of more saleable items is less susceptible to incidental vagaries that do not reflect the "market situation"; consequently, such items prove to be a better store-of-wealth than less-saleable products because they offer individuals protection against deleterious price movements that cannot be foreseen.[11] Menger writes of an "inner connection" between the medium-of-exchange and the hoarding medium (*Thesaurierungsmittel*) here, namely, that the former serves as the most convenient form of the latter for the reason that no costs arise in transferring one medium (in which hoards are held) into another (the exchange medium) should the individual need to resort to her hoarded wealth in order to finance current purchases.[12] Furthermore, the existence of one medium for both purposes eliminates the uncertainty surrounding the rate-of-exchange between one medium and another. There is thus an irredeemably speculative moment in the behavior of Mengerian agents that depends on the existence of uncertainty about price movements.[13]

To summarize: for Menger, money's prime function is as a medium-of-exchange; its other functions are parasitic on this one. The development of money is an organic one in which money emerges as a social institution as a result of decentralized decisions on the part of economic subjects. Money is not an institution of the state; the state "consummates" (*vervollkommnet*) the development of money by issuing and guaranteeing the validity of coinage, but this is logically after the development of money as a generally recognized medium-of-exchange.[14]

B. Money-of-Account: The Chartalist View

In this section, I appeal to a tradition that may, following its founder, G. F. Knapp, be termed "Chartalist." J. M. Keynes, writing within this tradition, tells us:

> MONEY-OF-ACCOUNT, namely that in which Debts and Prices and General Purchasing Power are *expressed*, is the primary concept of the Theory of Money.
> A Money-of-Account comes into existence along with Debts, which are contracts for deferred payment, and Price-Lists, which are offers of contracts for sale or purchase. . . . Money itself, namely that by delivery of which debt-contracts and price-contracts are *discharged*, and in the shape of which a store of General Purchasing Power is *held*, derives its character from its relationship to Money-of-Account, since the debts and prices must first have been expressed in terms of the latter. (Keynes 1930: 3)

Keynes's point is logical: a sine qua non of debts and prices is that they be denominated in a unit-of-account and dischargeable with a means-of-payment. Both functions—unit-of-account and means-of-payment—are logically independent of the means-of-exchange function. It *may* be that all three functions be discharged by one and the same medium, but this is an eventuality of no necessity.[15] An example of a unit-of-account that plays no part in the physical exchange process, but in which commodities exchanged are valued, is to be found in the second millennium BCE in Egypt. The unit consisted of quantities of copper, silver, or grain, none of which, however, was used as a medium-of-exchange.[16] Let us, though, remain with Keynes, who notes "the discovery"—on the part of private individuals—that the transference of private debt is often "just as serviceable for the settlement of transactions as is the transference of money in terms of which they are expressed." That is, debt (or tokens thereof) can circulate as a means-of-payment quite independently of a generalized medium-of-exchange.[17] It may thereby acquire its function as exchange medium. To see how this is possible, consider one particularly important type of debt: taxation.

As a result of the process of national state formation in the Middle Ages, taxation became increasingly important for states that required greater revenue for outlays (for, among other things, military conquest and territorial acquisition and consolidation). The fiscal system bequeathed to such states proved unable to siphon resources from the periphery into state coffers in the requisite amounts, for a number of reasons. First, the economies of such states were largely agricultural and the produce not yet "marketed" to a high degree, thus leading to an absence of prices according to which tax dues might be assessable and to an absence of money (coin) in which taxes could be best paid. This necessitated tax payments in kind. If the items used to pay taxes were not required by the state as use-values, they either had to be converted into other (useful) forms or stored until a time when they would be useful. Both conversion and storage were inconvenient to the state. Furthermore, both reliable road systems that connected center and periphery and techniques for valuing land (according to area and quality) were absent. Tax evasion by the peasantry was, therefore, rife, although it was often countered by the state with harsh and arbitrary taxation practices that, in turn, were answered with peasant riots. To overcome these problems, the state issued coinage and insisted that taxes be redeemed in that currency. This provided a decisive fillip to the development of a monetary and commercial economy, for, having had tax dues imposed on them, the population required the state-designated means-of-payment (coin) with which to pay these burdens. One commentator explains the process thus:

> The net product in itself was not adequate to pay the tax; it had to be transformed, by being sold, into money. For the worker, with only his labour to offer, the problem was the same: wherever he was he had to find a buyer for his labour. For the taxpayer the problem of taxation was the problem of markets. (Ardant 1975: 176)[18]

The peasantry, similarly, found itself having to market its produce in order to acquire the means of paying taxation. Therein lies the previously mentioned twist to a monetary and commercial economy: whereas formerly the peasantry could consume the greater part of their product themselves, giving another part to state authorities in the form of in-kind tribute and perhaps selling any surplus in local markets, they were now forced not only to market a greater part of their produce, but also to sell it in exchange for state-money in order to pay tax. In Keynes's terminology, the transference of private debt (taxes) became used in the settlement of transactions, and hence state-money became a medium-of-exchange.

It is a short conceptual (although perhaps a long historical) step from the need to acquire state-money to pay taxes to the situation depicted by Abba Lerner:

> Everyone who has obligations to the state will be willing to accept the pieces of paper with which he can settle the obligations, and all other people will be willing to accept these pieces of paper because they know that the taxpayers, etc., will accept them in turn. (Lerner 1947: 313)

With this development, we come to the statement with which Knapp commences his text: "Money is a creature of the legal order" (1905: 3), which people are forced to acquire if they are to observe their duties toward the state. In this way, state-money becomes a medium-of-exchange.

C. Money: The Neoclassical Approach

Unlike the two above approaches, the neoclassical theory of money disregards appeals to history—conjectural or real—and attempts to find a place for it as an appendage to the Walrasian system of exchange that this theory lays out with such elegance. Like Menger's approach, neoclassical economics views money first and foremost as an exchange medium, but, unlike in Menger, the role of uncertainty is minimized, if not extinguished. To be sure, transactions and precautionary and speculative demands for money have found their way into the mainstream, but uncertainty is invariably understood to be stochastic, and thus the demand for money is analyzed according to a probabilistic utility calculus.[19] These etiolated concessions to Keynes's *General Theory* notwithstanding, it is still not clear whether money is strictly necessary in the neoclassical model; as Frank Hahn notes, if there are two forms in which wealth can be held—money and bonds—there is nothing to prevent the latter circulating as money, thus sparing the need of a separate monetary form. In light of my discussion of Chartalism, the point is not without significance, for in that tradition, debt relations play an essential role in the monetization of an economy, but only because the state issues the money in which its subjects are to pay taxes. Such a move is absent in neoclassical economics.[20] Instead, when trying to account for money's existence, it appeals to the lower transactions costs of monetary exchange relative to those involved in barter. Yet Hahn questions the efficacy of such attempts to explain the *genesis* of money; somewhat reluctantly, he does not take up this challenge, but marks out a "preferable route" for neoclassical monetary theory, namely, "to take the institution of money as given and to ask why and how it survives." He depicts this "survival" as a "Nash equilibrium of an 'exchange game' [whereby it is] advantageous for any given agent to mediate his transactions by money, provided other agents do likewise" (Hahn 1987: 24, 26, 28; see also Ostroy 1987: 189; Tullock 1975: 492). But unless one explains *why* others do likewise, one fails to provide neoclassical theory with "foundations" that account for the necessity of money. Hahn notes:

> A barter economy may easily be a Nash equilibrium as well. That is, if all other agents barter . . . then there are strong reasons why no individual agent should accept promissory notes. The first person to accept a goldsmith's IOU took considerable risks. (Hahn 1987: 29)

The "game" has multiple equilibria; indeed, each situation in which everybody uses the same medium-of-exchange (whatever form the latter may take) is an equilibrium, as is the barter situation in which no medium-of-exchange is used. In the absence of a mechanism that makes a particular equilibrium "conspicuous" (Schelling ([1960]1969: 57), the ensuing equilibrium (if, indeed, an equilibrium ensues) is unspecified. One requires something not specified "in" the game and not given in the formal maximizing endeavors of individuals to bring the game to a specific equilibrium. Hahn tentatively proposes a "co-operative move—perhaps through a government—to move from one of these Nash arrangements to another" (Hahn 1987: 30). However, this not only presupposes the existence of some "Nash equilibrium" at the outset, but also brings us full square to the Chartalist "solution." This solution, however, does not provide the sort of foundation desired by Hahn, and hence the question of whether neoclassical economics has monetary foundations remains open.

Having paid our respects to monetary theory, it is time to return to LETS, and to ask which of the three approaches outlined above sheds the most light on them.

IV

The Monetary Structure of LETS

To state an obvious fact, LETS' currencies are not spontaneous, unintended outgrowths of barter. Rather, they are consciously instituted by members of a locality and, though they are not creatures of the legal order (state), they are creations of "community."[21] Hence there are reasons prima facie for placing our allegiance at the disposal of the Chartalist theory and, for now at least, relinquishing both Menger's "invisible-hand" approach and Hahn's neoclassical approach. Let us, then, pursue the Chartalist path and consider, first, unit-of-account.

A well-nigh invariable feature of LETS is that the currencies are "pegged" to a national currency at a ratio of 1:1. In this respect, Linton's first LETS in Canada was definitive. Thus, although LETS' currencies serve as alternative (if virtual) media-of-exchange, their function as money-of-account is entirely parasitic on the national currency. In Keynes's terminology, the founders of a LETS determine what thing (the virtual currency) is to answer to the description "money-of-account." LETS' currencies thereby become generalized media-of-exchange within their respective dominions. This point is significant for a number of reasons. First, it should relativize the notion of LETS as "disengaging from the capitalist money economy" (Pacione 1997: 1182); a fully-fledged monetary economy is a precondition of LETS insofar as LETS' currencies are related to the national money-of-account. Calculating exchange relations in terms of prices (expressed in a given money-of-account as opposed to an on-the-spot, "in kind" exchange) is a principle that LETS take over from the market economy. That LETS' prices deviate from their market counterparts, and, in this sense, may be said to "disengage" themselves from the capitalist economy, does not detract from their dependence on the national currency.[22] This point should alert the reader to the error—frequent in the LETS literature—to the effect that LETS' money is *essentially* a "pure" means-of-exchange, to which function LETS' currencies are reduced;[23] to become a means-of-exchange, LETS' money answers to a preexisting description given in a money-of-account provided by the national currency. The latter function is primary. Although LETS' trade is facilitated not by "money" (in the sense of dollars, forints, francs, etc.) as a means-of-exchange but by a local currency, one cannot talk of LETS "abolishing" money. Only if one considers money to be primarily a medium-of-exchange might one be hoodwinked into believing that LETS abolish money. It follows that the "virtuality" of LETS' currencies—in the sense that they have no physical existence—is of little matter; whether money-of-account remains virtual or acquires material form is of no consequence to its primary function as money-of-account. In this sense, LETS confirm Keynes's statement: "By acting as a money of account [a medium] facilitates exchanges without its being necessary that it should ever itself come into the picture as a substantive object" (Keynes 1937: 215).

This leads to a further question: Is LETS trade a type of barter, as it is sometimes held to be?[24] We must distinguish between two types of exchange—both moneyless—which are commonly characterized as barter. The first consists of coincidental spot trades in which the terms-of-trade are renegotiated anew in each act of exchange in terms of quantities of the goods exchanged. This sort of barter may take place between traders who chance upon one another, but it is not regularized to any extent. The "prices" involved are not "economic" in Menger's sense because they do not reflect the "market situation." Indeed, one can scarcely speak of a "market" here. The second type of barter likewise involves no monetary medium-of-exchange, although it presupposes the existence of an abstract unit-of-account in which prices are expressed. Looked at superficially, the two types of barter appear identical, for in each there ensues a direct exchange of product for product. But the lack of *numéraire* in the first type marks a decisive difference from the second; it is not apparent how a fully-fledged monetary economy can arise out of coincidental spot-trades taking the form of barter, whereas the path from a society with a unit-of-account to one with a generally accepted medium-of-exchange is, as I showed in my discussion of Chartalism, conceptually clear.[25]

It may be thought that a limitation of Chartalism in analyzing LETS is the absence of the social category of debt as a starting point for LETS' analysis and practice. Thus, although LETS are called into existence by formal edict of a community, the currency, unlike "normal" money, is not imposed on a community by a central power with the purpose of exacting tribute; rather, it is created to circulate, although, as I have adverted to above, the currency's practicability as a means-of-exchange depends on its functioning as a unit-of-account, a condition that holds in the case of LETS by virtue of their currencies being tied to the national currency. LETS' currencies are manifestly nonstate creatures; indeed, they pose a potential threat to the state's monopoly on currency issue and its ability to collect taxes. That is, the "earnings" from LETS' participation are taxable and thus payable, like all taxes, in national currency. This is an issue that is often discussed in connection with LETS, and if we enquire into the implications of taxing LETS' earnings from a Chartalist perspective, we come to an interesting conclusion.

Some LETS have declared their willingness to pay taxes, but only in their local currency. This would seem to curtail the flexibility and power that the state enjoys by collecting taxes in a single currency of its own choosing. If it were to use the LETS currency in its vaults, one might think the state would have to acquire items traded in the LETS currency, in other words, services offered in the particular LETS in question. The appearance may be deceptive, however, as the following hypothetical situation reveals. If the state agreed to accept taxes in a LETS currency and not just in its own (state-)money, the LETS currencies would become sought after by private individuals (both from within and outside the LETS in question), who would be able to pay their taxes with the LETS currency. This would not necessarily entail that more and more people would join the LETS in order to acquire its currency; it might be that *non*members of the LETS would agree to receive payments from the state in LETS currency (which had been previously paid to the state by members of a LETS) in the knowledge that they, the nonmembers, would be able to pay future obligations to the state using that currency. This would lead to the LETS currency operating as a means-of-payment of tax dues, which could lead to its becoming a means-of-exchange outside the LETS in which it was born. The connection between the LETS involved and the market economy would then transcend the level of unit-of-account—the currency could theoretically become a type of Chartal money, a parallel currency beyond the confines of the local community in which the LETS is situated. These remarks must be interpreted as a *Gedankenexperiment*; as long as LETS remain as small as they currently are, the issue of taxation and all that might follow is unlikely to impress the political agenda with any great weight. Still, it is important to be clear about the possibilities to which certain scenarios could lead.

To close this section, I must address a function of money that I failed to mention when elucidating the three variants of monetary theory: store-of-value. The reason for postponing the discussion of this function until now is that it can be conveniently encompassed in an examination of LETS, the protagonists of which often appeal to the writings of Silvio Gesell, for whom money's store-of-value function was of great import. I need not expound Gesell's ideas in detail here as they have recently been aired in this journal.[26] Gesell locates the source of economic exploitation, *pace* Marx, in monetary exchange: exchanging commodities for money is not an exchange of equals, because money has the property of holding its value over time. Whereas commodities depreciate in value when stored, money does not, and hence money, in Gesell's eyes, is capital—its rate of return (vis-à-vis commodities) sets a lower bound to the profit rate on investment. To abolish this source of exploitation and also to encourage hitherto crowded-out investment and thus increase the rate of monetary circulation, Gesell proposes that money be relegated to the ranks of mortal commodities, a proposal that would be realized by the issue of banknotes (*Freigeld*), the validity of which would expire at regular intervals and could be renewed by their holder, who would have to have the notes stamped at a cost. Money would thus depreciate in value, lose its attraction as a store-of-value, and would be spent, not hoarded.[27] One must be careful here to attend to the context in which Gesell wrote, namely, at a time when *de*flation rather than *in*flation was a major economic problem.[28] Only when this is borne in mind does the idea of money holding its value better than commodities make sense.

The claim that LETS owe their heritage to Gesell and the *Freigeld* movement is to be treated with suspicion. The "experiments"—such as in Wörgl, Austria—initiated by Gesell's followers were instigated in the face of economic plight during the 1930s; as I show in the following section, LETS' roots do not usually grow out of hardship. However, this is something that nevertheless fails to persuade many an analyst from portraying Gesell as an intellectual forebear of LETS, and LETS as a continuation of the *Freigeld* movement. Our current question, though, concerns the efficacy of LETS' money as a store-of-value and the practicability of introducing a type of "accelerated money" *à la* Gesell. Regarding the store-of-value, LETS currencies are subject to strict limits; given the small size of LETS, one must ask whether it is advantageous to store value in a currency that can be converted only into a limited range of commodities and that cannot be converted into other stores-of-value.[29] More seriously, hoarding LETS currency transgresses its main purpose—circulation. In the next section, I show how the sluggish rate of circulation is deemed by many LETS' members to be a problem. Might a currency subject to periodic devaluation increase its velocity, thus intensifying LETS trade? The immediate answer is "yes." However, given the comfortable financial situation of the majority of LETS' participants and the fact that they are not financially reliant on LETS, it is unlikely that LETS' members would initiate a move to a depreciating currency. For less well-off members who might see in LETS a chance to gain more significant material benefits than those currently available, an increase in the volume and concentration of exchange would be welcome. Whether the better-off members could be brought to institute measures that would enhance LETS' financial importance is, however, doubtful. To my knowledge, there is only one LETS in the world that has instituted a system of monetary devaluation in the form of a tax on positive balances;[30] "accelerated money" has not, hitherto, been a feature of LETS, and there are reasons for believing that this will remain the case. The reader will have noticed that I have already pointed to the empirical form that LETS tend to take, and have thus exhausted the scope of a purely conceptual discussion. It is therefore time to look at the concrete manifestation of LETS more closely.

V

The Facts of the Matter

THE COMPOSITION OF LETS' MEMBERSHIP is decisive for the manner in which LETS themselves develop. In this section I enumerate the motives of individuals who participate in LETS. By looking at the flesh and blood of LETS, one can see how their concrete manifestations as socioeconomic forms compares with their structural potentials. After looking at the characteristics of LETS' members, I turn to two questions that have already been raised in the previous sections:

1) Do LETS offer a refuge to the unemployed and less well-off members of society and, if so, can this potential be realized more effectively?
2) In what way(s) can LETS be said to "decouple" themselves from the market economy?

Regarding the second question, I have already argued that LETS are structurally dependent on the market economy by virtue of their assumption of the national currency as a unit-of-account. The question here concerns how the interests of members can, within these structural limits, "steer" LETS away from their market orientation and thus create a sphere of economic activity autonomous to the market. While the first question focuses attention on LETS as economic systems, the second focuses on LETS as vehicles through which nonmaterial values and goals can be pursued. The way in which these two aspects may come into conflict will become clear in what follows.

First the motives for participation:

1) Engendering a sense of community is the most often cited motive for participation in LETS;[31] the desire to "belong" to a LETS is often couched in terms of a counteraction to "globalization," the anonymity of monetary intercourse, lack of "personal trust" afforded by the market, and a lack of control over the community in which one lives;[32]
2) Cultivating personal esteem and a sense of self-reliance by offering services and exercising skills that one might not otherwise offer or activate;

3) "Ideological" motives, such as a commitment to "green" ethics, an anti-capitalist ethos, or the desire to establish a "fairer" form of economic activity;
4) "Financial" motives; however, given the size of the schemes and the often sporadic nature of exchange, the financial gains are hardly significant and are not as important as the other motives.

It is noteworthy that Motives 1 and 3 stand in a relation of tension to the fourth. Consider the first motive: those who wish to foster communal relations with others in a locale wish to keep LETS intimate, which means small.[33] Together with the interest in community is a desire to foster relations of trust between members, which is difficult in larger groups.[34] Wünstel's claim that "only with a size of 1,000–3,000 members will a LETS attain economic significance" (Wünstel 1997) cannot be faulted, but with only one LETS of this size worldwide, they must wait a little longer for this economic significance. The size issue cannot simply be attributed to the fact that LETS are currently in an early phase of development. Participants often have no interest in expansion for fear of losing the intimacy of their communal enclave; further, they are not interested in material gain as such because "economic significance" presupposes expansion of existing schemes that would detract from the intimacy of community and trust. Furthermore, LETS confirm the findings of countless studies of the "third" or "nonprofit" sector, namely, that participants tend to hail from the more affluent strata of society, are generally gainfully employed in secure jobs, and have above average educational qualifications.[35] They have freed themselves from material need and can thus afford to engage in "life political" pursuits such as LETS, through which they can achieve the goals set out in Motives 1, 2, and 3.[36] As a result of the desire to pursue such goals (particularly those in Motive 3), LETS often attract a clientele from the "alternative" scene. Although such people may not occupy favorable positions in the primary labor market, they are often well qualified and freely choose to engage in "alternative" projects prior to labor market entry.[37] LETS' members are generally not dependent on LETS to fulfill their material needs. Members are therefore not eager to expand and intensify their schemes.

This leaves us with those whose primary interest is pecuniary (Motive 4), particularly the unemployed and the less well-off. Given supply limitations due to the small size of LETS, these groups cannot meet their basic needs through them; social security payments, however paltry and unedifying, at least represent a secure means of meeting some basic needs. The less wealthy and less educated tend to have access to fewer (nonfamilial) contacts than do their richer and better educated co-citizens with whom to form social networks of the LETS type.[38] The poor, unemployed, and less educated are badly represented in other informal or voluntary networks and, unlike their richer, gainfully employed, and better educated counterparts, cannot use existing network connections to develop new networks.[39] LETS' enrollment, for example, tends to be a word of mouth affair, circulating in extant networks and reaching the ears of those already well-placed therein.[40] The ears of the excluded may as well be deaf. Consequently, LETS, by virtue of their population and the interests thereof, are hindered from realizing their potential to offer the less fortunate an alternative.

We already have a partial answer to the second question raised above: one way in which LETS disengage themselves from the market economy is by creating small, communal enclaves of exchange in which relations of trust and intimacy prevail. However, the intimacy of these enclaves means that the range of services offered is small. To satisfy the bulk of their needs, therefore, LETS' members must be economically active outside their LETS, normally in the market; hence, engagement *in the market* is often a presupposition of disengagement *from the market* via LETS participation. There is, nevertheless, one way in which LETS disengage *economically* from the market: through the establishment of "fairer" prices than those of the market. To what extent can disengagement through such a pricing system be maintained?

The notion of "fairness" requires elucidation. LETS' prices are held to be fairer in the sense that activities that are poorly remunerated in the market receive a higher remuneration in LETS and vice versa.[41] Some LETS advocate equal exchange ratios irrespective of the type of work involved, but the working principle is to allow traders to negotiate terms-of-trade between themselves privately.[42] This is prudent in light of the fact that many members offer services in LETS that they simultaneously offer in the market.[43] Such people, however firm their commitment to LETS, must be aware of the opportunity costs of providing services in a LETS, where they would have to forego the higher financial remuneration of the formal labor market if their LETS imposed a fixed hourly rate regardless of the type of work. This would impose an economic constraint on LETS, which could be countered by sufficient doses of "good-will" on the part of members called upon to make material sacrifices. And if LETS' activity remain as occasional for the bulk of its members as it presently is, the moral demands on members asked to forego higher remuneration in the market would not be unrealistically high. Nevertheless, even at present there is evidence that those active in both the primary labor market and in a LETS tend to transfer not only their skills and capital from the market to LETS, but also their "less fair," market prices.[44] Were LETS to increase in size and gain the "economic significance" mentioned above, the two motives—economic and moral—would come into yet sharper tension with one another, unless, that is, LETS' prices were to move further in line with those of the market economy, thus reproducing the inequalities of the market that many LETS' protagonists seek to overcome *in and through* LETS. LETS thus are in a dilemma: becoming economically significant may dilute the values that members pursue, which, for many, represent the *raison d'être* of LETS, but remaining economically insignificant implies remaining somewhat "elitist" in their membership and relinquishing the fulfillment of their potential to help the less fortunate.

To the extent that they maintain an alternative—nonmarket—pricing system, LETS give those members who can earn more in the formal labor market an incentive to "defect" from LETS. It is an empirical question whether and to what extent this would indeed occur, and while LETS remain financially insignificant, this danger is unlikely to be too marked. But if a gainfully employed person works ever more hours in LETS, thereby attaining prices below those attainable on the market, she will become increasingly aware of the associated financial sacrifice. Only if people are willing to make such sacrifices will LETS be able to increase their financial significance. Unless the average LETS' member is made of tough moral fiber, she is more likely to defect to the market if the opportunity arises, leaving behind only those in need, who, as I have noted above, are numerically not well represented in networks such as LETS.

Can one expect members to forego financial gain if the sacrifice becomes too great? Already there are signs that "good-will" and commitment have limits. Moreover, is it realistic to envisage that LETS' members, whose current interests are not overwhelmingly financial, transform their occasional LETS activities into a more frequent commitment to LETS as economic schemes? One feature of participation in networks such as LETS is that those who engage in these networks are typically those with the *least* spare time, given their activities in other networks and in their professional lives. To transform LETS into significant economic units would thus require yet more time and commitment to the cause. Regarding the growing financial sacrifices in the case of LETS' expansion and intensification, I do not, *pace* Margaret Thatcher, deny that one can "buck the market" (by instituting a "fairer" price structure in LETS), but this is only possible if one disposes over large supplies of moral conviction. The "moral" side of LETS might dominate their "economic" side when the latter is of marginal import, as is now the case, but it is unlikely that the former can be maintained if the latter is to gain in importance. The most likely scenario for LETS is that they remain small and fail to realize their potential to offer the unemployed an economic alternative, while continuing to offer better-off members a spare-time activity in which an alternative form of economics may be pursued.

Notes

1. See Wünstel (1997).
2. Offe and Heinze (1992: 92).
3. Cf. Williams (1995: 214, 1996: 1411).
4. Brandenstein et al. (1997: 825).
5. Menger ([1871]1968: 251, 1892: 242).
6. Elsewhere, Menger ([1892]1970: 7–12) uses the terminology *Gangbarkeit* or *Marktgängigkeit,* i.e., "feasibility" or "market currency" (literally "go-ability") from which he derives their saleability (*Absatzfähigkeit*). Menger ([1892]1970) has been translated into English in Latzer and Schmitz (2002).
7. Menger ([1871]1968: 254–261, [1892]1970: 9).
8. Cf. Moss (1978: 19–21) and O'Driscoll (1986: 609, 614–615).
9. Menger ([1892]1970: 8).

10. Menger ([1892]1970: 20–21, 1892: 244–245).

11. Menger (1892: 245, 251). The conceptual link between Keynes's "liquidity" and Menger's uncertainty aspect is suggestive. See O'Driscoll (1986: 609). Menger emphasizes that money's medium-of-exchange function is anterior to its function as a store-of-wealth.

12. Menger ([1892]1970: 56). Menger's term for hoarding medium (*Thesaurierungsmittel*) comes from the Greek *thēsauros* (treasury, storehouse) from which the English "thesaurus" likewise stems.

13. For references to uncertainty, see Menger ([1871]1968: 255, 1892: 251–252, [1892]1970: 8, 56).

14. Menger ([1892]1970: §V). I discuss Menger and his views on the relationships between the functions of money in Peacock (2006).

15. Menger ([1892]1970: 52–54) excludes a separation between medium-of-exchange and means-of-payment on the grounds that if there is a generally recognized means-of-exchange, it is thereby a means-of-payment. If one considers an act of sale and purchase using a medium-of-exchange, writes Menger, then it is not only obvious that payment is an essential component of the exchange, but also that the payment is effected via the medium-of-exchange. Thus, having ascribed money the function of medium-of-exchange, it is "pleonastic" to ascribe to it a further, means-of-payment, function, for the latter is already contained in the former.

16. Howgego (1995: 13).

17. As it once did in the form of "tallies" (Davies 1994: 146–52; Wray 1998: 39–47).

18. I have drawn liberally upon Ardant's informative article in this paragraph. See also Wray (1999: 685): "[I]f one has a tax liability but is not a creditor of the crown, one must offer things up for sale to obtain the crown's tokens."

19. See, for example, Patinkin (1965: 81, 118ff).

20. Hahn (1965: 130–131).

21. For which word, see Keynes (1930: 4).

22. I attend to the price structure of LETS in greater detail in Section V.

23. Pacione (1997: 1186).

24. See, for example, the title of Williams (1996a).

25. "No example of a barter economy, pure and simple, has ever been described, let alone the emergence of money from it" (Humphrey 1985: 48).

26. See Blanc (1998).

27. Gesell (1932: 18–20, 240, 244).

28. In the United States, there were four major deflations between 1870 and 1929; these, and their distributional implications, were feared (see Cecchetti 1992: 142–143).

29. The nonconvertibility of LETS currencies represents a decisive difference between that and Gesell's *Freigeld,* which should be freely convertible into precious metals and other currencies (Gesell 1932: 245).

30. The LETS in question is in Saint-Quentin en Yvelines, France (see Blanc 1998: 480).

31. See, for example, Offe and Heinze (1992: 96, 147); Williams (1996: 1407).

32. This "community motive" is written into the LetsLink UK Draft Constitution: "LETS aim to stimulate the creation of social and economic benefits by and for its members and the people of the locality; and to develop and encourage the experience of community in the locality" (quoted in Williams 1996a: 87).

33. See Peacock (2000: 72); Offe and Heinze (1992: 148–149).

34. See Blanc (1998: 477–480).

35. See Peacock (2000: 67–72) and the studies cited there.

36. On the concept of "life politics," see Giddens (1991: ch. 1).

37. Williams (1996: 1410) found that 63 percent of the members of Great Britain's largest LETS (Manchester) held a degree qualification. LETS members are sometimes assigned to the "disenfranchised middle class" (see Pacione 1997: 1188).

38. See Hall (1999).

39. See Peacock (2000: 65–72).

40. Williams (1996: 1412).

41. Leach et al. (1996: 6).

42. It is in this respect that LETS differ from some U.S. schemes based on "time dollars." However, even where a unit of time serves as the money-of-account, this does not necessarily mean that a scheme "disengages" itself from orthodox money as money-of-account; "ITHACA hours," for instance are a money-of-account tied to the dollar.

43. Williams (1996: 1406). This prerogative of the gainfully employed to transfer their primary market capital and skills to a LETS is not available to the unemployed.

44. Williams (1996: 1405–1406).

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