

LOCAL MONEY

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Abstract: *In our work we present various examples for the use of local currency. We introduce the use and economic characteristics of local currencies. Why do we need community money, what is its role in the economy, and what are the conditions for its adoption? First, we present some foreign practices of using local currency such as the Itaca Hour, the Chiemgauer or the Urstromtaler. Next, the characteristics and specifics of some Hungarian examples, the Bocskai Korona, the Sopron Kékfrank and the Balaton Korona are described. Lastly we present some selected results of a questionnaire conducted in Hungarian cities about the willingness of the population to adopt a local currency. We find that the younger generation is more susceptible to the introduction of a local currency and to supporting local businesses.*

Key words: *money surrogates, local products*

INTRODUCTION

Money surrogates are any type of financial tool that have cash value, can be used for payments and are considered cash equivalents. We can distinguish technical and economic money surrogates [4]. Technical money surrogates are solely meant to improve the performance of certain functions of traditional cash. The actual bank money or banknotes corresponding to the money surrogates are deposited somewhere. Other than credit cards, loans cannot be given in the form of technical money substitutes. After every transaction the seller will exchange the surrogates for cash or bank money [2]. In some cases they can be directly exchanged for legal tender. The technical cash equivalents are therefore economically neutral [7].

Economic cash equivalents want to take advantage of money's economic stimulus and credit functions. With the exception of the bill of exchange, economic cash equivalents usually operate in a smaller region. Local currency also belongs into this group [3]. Community currency is an alternative method of payment which can only be used in a geographically limited area. It is used in a municipality or in a wider region. It usually takes the form of printed tickets but often only exists in electronic form. It is not a legal tender therefore its acceptance is not compulsory. Its users and accepting merchants join on a voluntary basis. Local money has zero or negative interest. The issuers can be municipal governments, a group of businesses, NGOs and civil society organizations [6].

Local money is spent at the local small and medium size entrepreneurs and farmers thus promoting their survival and the preservation of local jobs. Creators of the money decide who can become official acceptance merchants. Small and medium-sized enterprises have an advantage with this device. It provides an opportunity for strengthening local business and it also pays to develop cooperation with local suppliers. Local currency can promote local agriculture and food production thus they can become competitive with vegetables, fruit and meat imported from abroad offered at major supermarket chains [1].

Why is local currency good for the community? One main reason is its role in building communities. Another reason is keeping capital in one area [5]. Local money or vouchers can only be spent at the contracted acceptance locations, encouraging the public to buy locally produced products and to make use of local services. The third reason is the improvement of employment in the area [8].

MATERIALS AND METHODS

In our work we explored how local currencies are used in foreign countries. We investigated which Hungarian cities already introduced such currencies. We present partial results of a survey which includes views of the population in some of the Hungarian cities planning to introduce community money. In order to better understand the views of local residents about local money primary information collection was necessary. The form of a standard questionnaire was chosen as the research method. The survey was distributed mainly in electronic format as this could reach more people and their assessment was also simpler. The survey included questions aimed at finding out how the introduction of local money would be received. We also addressed the knowledge of local residents about community currencies.

RESEARCH RESULTS

FOREIGN EXAMPLES FOR THE USE OF LOCAL CURRENCY

The Ithaca Hour is the oldest and most widely used local currency in the United States today. It is adopted in upstate New York within the boundaries of Tompkins County, but it is mainly used in and around the town of Ithaca. Nearly 18,000 individuals and enterprises are paying using this tool. The paper money features faint graphics and each bill is stamped with a serial number to prevent counterfeiting (figure 1). The name of the currency was selected to reflect the actual amount of time people spend working that is behind its denominations. One Ithaca hour corresponds to 10 USD, which represents an hour's wage in the area.



Figure 1. The Ithaca Hour



Figure 2. Local currencies Chiemgauer and Urstromtaler

Named after the Bavarian Chiemsee the local currency Chiemgauer (figure 2) provides preferential purchase at local entrepreneurs. Although, one Chiemgauer equals to

1 Euro, the owners only receives 95 € for 100 Chiemgauer when they redeem it. Yet it is still worth for entrepreneurs to use it. The Urstromtaler is used in Magdeburg and its surroundings (figure 2). 200 enterprises (bakeries, grocery stores, jewelry shops, restaurants, cinemas) accept it. Its use is similar to that of the Chiemgauer.

HUNGARIAN EXAMPLES FOR THE USE OF LOCAL CURRENCY

The Bocskai korona (figure 3) is a currency that is accepted solely in the village of Hajdúnánás at the official acceptance points. It was created by local entrepreneurs in order to connect local consumption with local production and service.



Figure 3. Denominations of the Bocskai Korona

In May 7, 2010 Sopron and its environs released a new currency, the Kékfrank (figure 4). The Sopron Kékfrank is managed by the Rajka Regional Credit Union. This local currency accepted by 800 merchants.



Figure 4. Local currency in Sopron, the Kékfrank

The second printed local money in Hungary, the Balaton korona, began circulating in March 2012 (figure 5). This bill was created by seven municipalities on the northern shores of Lake Balaton, and it is traded one on one by the official Hungarian currency, the Forint.



Figure 5. Denominations of the Balaton Korona

POSSIBILITIES FOR INTRODUCTION OF LOCAL CURRENCIES IN OTHER MUNICIPALITIES

Through a survey conducted in several Hungarian towns we assessed what general knowledge the population has about local money and what their opinion is about this payment option. According to our survey more than half of the respondents have not heard about this payment instrument, despite the fact that it has been present in the country for several years. Most of the younger respondents were not familiar with this concept. 30% of the respondents did not trust its success, which they justified with the high failure rate of the initiatives taken so far. 20% thought that it would actually be a burden. The younger generation has positive opinion of community currencies which could be explained by their openness to novelty. The rejection came mostly from the older generation who do not trust the local currency's success and consider its use complicated. Only a quarter of respondents said that they would regularly utilize the local currency during purchases if it was introduced.

CONCLUSIONS

It can be concluded that residents all over the world consider local values and local products important. Buying patterns have also confirmed this, in view of which the introduction of a local currency was often successful. This type of tender has an important role in the introduction of incentive schemes. In addition to the very high proportion of advocates, many felt that these programs are useless or detrimental. Local money is kept alive by those who through their shopping habits are willing to support the operation of these systems and thus ensure their long-term survival. In addition to the traditional means of payment, it would be worth considering the introduction of local currencies in more settlements. In Hungary, the lack of knowledge about local currency is most apparent among young people. As local currency can also be used to provide cash incentives, its popularity could also increase in the older age group. To accomplish this though, it is essential to simplify its use and purchase.

Beyond the positive effects on local economic participants, the most important feature of a local currency is its community forming power. In today's fast-paced world there is less and less time to deal with the real values of the world. The local currency can be instrumental in getting closer to the community, thus to the real values important to us.

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