

Depreciating currencies

The money-go-round

MUNICH

Will old-fashioned scrip make a comeback?

IN 1933, in the depths of the Depression, Irving Fisher, America's most prominent economist, wrote a pamphlet on "Stamp Scrip". This was a type of alternative currency popular in America and elsewhere at the time that was periodically taxed with a stamp so that it would be spent, not hoarded.

Based on the theories of Silvio Gesell, a German "quasi-economist", one such currency, the wära, was used to revitalise Schwanenkirchen, a Bavarian coalmining village, in 1931. "No one who received wära wished to hold [them], the workers, store-keepers, wholesalers and manufacturers all strove to get rid of them as quickly as possible, for any person who held [them] was obliged to pay the tax. So wära kept on circulating, a large part of [them] returning to the coal mine, where [they] provided work, profits and better conditions for the entire community," Fisher wrote approvingly.

"The miracle of Schwanenkirchen" is a historical footnote, but as deflation fears increase, and interest rates fall close to zero, the allure of such currencies may resurface. Though there are alternative currencies everywhere, Germany is particularly fond of Gesellian depreciating varieties. Bavaria still boasts the biggest in the country, the chiemgauer.

Named after the region where it originated in 2003, the chiemgauer can be used alongside the euro in more than 600 shops and firms in the area. About 300,000 of them are said to be in circulation. In the town of Traunstein, the chiemgauer can be spent on newspapers and food and some people are paid in it.

Spent it must be, because it loses value every quarter. The notes have an expiry date after which they need to be

renewed with a sticker costing 2% of their value. The quicker money is spent, the faster, in macroeconomic terms, its velocity. Gesell argued that a higher velocity of money helps combat deflation.

Some of Gesell's theories were rejected by Fisher. But generations later, zero interest rates in slumping Japan led to renewed debate about a temporary tax on money to encourage spending.

Gerhard Rösler, professor of economics at the University of Applied Sciences in Regensburg, who wrote on alternative currencies in 2006 for the Bundesbank, says the overall stimulus from such schemes in times of deflation may be short-lived—because, though the velocity of money increases, its supply tends to shrink. For now, the amounts in circulation are minuscule. Most are a gesture of defiance against globalisation by encouraging local commerce rather than a rigorous economic experiment. But there may be more converts if monetary policy eventually runs out of road.



Will the scrip be rewritten?