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In lands of the euro, a growing number of local currencies

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Christian Gelleri, with his straightforward manner of speech, rumpled suit and home office, hardly resembles the polished central bankers whose every breath captivates financial markets. But just as Jean- Claude Trichet, president of the European Central Bank, lays claim to the title "Mr. Euro," Gelleri can plausibly call himself "Mr. Chiemgauer."

Gelleri runs an organization that issues an alternative currency, known as the chiemgauer, that consumers in the region southeast of Munich use to buy everything from pizza to haircuts to rugs. Designed to foster the production and consumption of local products and services, the chiemgauer takes aim at the reigning central banking orthodoxy that pumping more cash into an economy accelerates inflation and eventually harms growth.

"When people use the chiemgauer, the apple juice producer sells more bottles and the cheese maker sells more cheese," Gelleri said. "In theory, this is not supposed to happen, but the fact is it does."

While more than 300 million people in Europe use the euro to buy life's essentials, a small but growing number — concentrated in the German-speaking world — use a proliferating species of currencies with names like chiemgauer, urstromtaler, landmark, kirschblüte and kann was.

Issued by private organizations, these currencies are probably better understood as vouchers — pieces of paper that can be redeemed for goods and services at specific regional businesses that have agreed to accept them.

By having charitable organizations sell them at a profit for euros, the organizations create an incentive for people to obtain them in the first place — on top of harnessing an altruistic desire to buy locally in an era of globalization — and businesses that accept can tap into a new vein of customers.

But they also typically include a feature aimed at jarring users into spending them more quickly than they would euros. In the case of the chiemgauer, the notes lose 2 percent of their value each quarter if people do not spend them in time.

Inspired by a long-dead German theoretician, Silvio Gesell, the currencies mine a hoary conflict in economics — usually pitting the mainstream against subversive outsiders — about whether paper money is a neutral medium of exchange whose purchasing power should be scrupulously guarded, or an instrument that could be manipulated to fulfill capitalism's untapped potential.

The contrast with the thinking behind the euro is stark. The ECB was given legal independence so that it would be free to pursue tough anti-inflation policies and stop politicians from embarking on ill-advised experiments in using monetary policy to spur Europe's economy.

This independence periodically grates on European politicians, and seldom more so than now.

In December, Ségolène Royal, the Socialist candidate in the French presidential election this spring, opened an attack on the ECB and Trichet, saying that she wanted to make the bank "subject to political decisions." That prompted Chancellor Angela Merkel of Germany last week to voice "great concern" about criticism of the bank's independence.

Yet almost more than anywhere else, Merkel's own country has witnessed the rise of currencies like the *chiemgauer* since 2001 that embrace a theory that is probably more Royal than Merkel.

Regiogeld, a German association for alternative currencies, currently tracks 21 such types of money in circulation in Germany, Austria and Switzerland, with an additional 31 in preparation. Gerhard Rösl, an economist with the University of Applied Sciences in Regensburg, has also located similar experiments in Denmark, Italy, Scotland, Spain and Italy.

According to the Bundesbank, the German central bank, these alternative currencies are legal, provided they do not resemble the euro. But they are not legal tender like the euro and are unlikely to challenge the official currency shared by 13 European nations.

Rösl recently published a paper estimating the overall value of the currencies in Germany at €200,000, or \$260,000, a drop compared to the trillions of euros in circulation. In a statement this week, the Bundesbank said that "only a very strong increase in these currencies would it disturb monetary policy."

Though their users emphasize that regional currencies complement the globally accepted euro, the money does embody a theoretical challenge to the common currency.

Gesell, a German émigré to Argentina and socialist activist, argued that money that sits in a bank was like dead weight on an economy, because it was accruing interest rather than being spent to fire consumption and production. Gesell proposed that money automatically depreciate over time — that is, inflation should be hard-wired into the currency — to generate an incentive to spend quickly.

The *chiemgauer*, named after the region around Rosenheim when it was created in 2003, follows this thinking.

To obtain *chiemgauers*, the roughly 1,000 users register with Gelleri's organization and get a bank card that resembles any other. At about 40 sites around the region, they can draw *chiemgauers* at the rate of one per euro, and spend them at roughly 1,000 businesses.

The *chiemgauer* depreciates at a rate of 2 percent per quarter, so Gelleri helped build in other incentives to persuade people to swap their euros for it. Schools, music clubs and elder-care associations, for example, sell *chiemgauers* and earn a 3 percent commission.

Users can also convert *chiemgauers* back into euros with the organization that issues them, for a 5 percent fee. If they overshoot the quarterly deadline for devaluation, they can purchase tiny stickers corresponding to the percentage lost which are affixed to the notes to restore them to their full value.

The currency's structure nurtures a psychology of spending to increase what

economists call the "velocity of money." That way, even though the total amount of money in circulation may not rise — because euros get swapped for chiemgauers — the economic activity generated rises.

Alfred Licht owns a small family business in weaving rugs in Rosenheim, and estimates he has accepted 8,000 to 10,000 Chiemgauers over the past two years. He began accepting them as a way to lure customers who are interested in regional products. He spends them on medication, shoes and the occasional beer in a local tavern.

"I could hardly tell you how many I take in because I pass them on as fast as I can," Licht said.

Gelleri, a 33-year-old former economics teacher, contends that the statistics bear out the anecdotes. While the euro money supply turns over about seven times a year, the supply of chiemgauers does so at three times that rate.

Orthodox economists do not dispute that the chiemgauer's velocity outstrips the euro's, but they contend that people will logically draw fewer chiemgauers to protect themselves against the automatic devaluation. Rösl, the Regensburg economist, jeeringly calls the chiemgauer "schwundgeld" — "disappearing money" — to drive home his point.

"Yes, people spend the money more quickly," Rösl said. "But this money is expensive, because it loses value, so people are bound to hold less of it than they would otherwise."

Advocates like Gelleri say they believe they are doing more than simply putting Gesell's theory into practice. They are blending it with charitable work and support for the region.

The chiemgauer has earned money for the charitable organizations that sell the actual paper money for a fee — roughly €37,000 since 2003. And it has filled the coffers of Rosenheim's merchants and farmers.

Jürgen Wemhöner, a retired retail manager who estimates he spends several hundred chiemgauers a month, said the currency's appeal was that it supported the locals who accepted it. That seems to matter very much to people in Rosenheim.

"This currency gives small villages and regions a chance to survive," Wemhöner said.

But can a currency really do that for the Chiemgau region?

A central banker like Trichet might argue that prosperity comes from biting the bullet. Europe might suffer job losses and bankruptcies as it weathers globalization, but it will do well in the long term. The chiemgauer embodies an answer that is very different.

"With a little creativity we can avoid this suffering that we allegedly have to go through," Gelleri said. "The key is to do this intelligently, and we think it works."