

Diversified Approach to Increasing Purchasing Capacity

Ronald Logan

Version date: 2015

Introduction

In a time of economic hard times and high unemployment, there is special need to increase purchasing capacity for all citizens. Those who are without the financial resources to meet their basic needs and to acquire their basic amenities either will require public expenditures for social services or resort to desperate anti-social means for their livelihood. Further, their meager resources can do little to help revive the economy.

There is a diversity of means available to create or enhance purchasing capacity. Most of the non-welfare means fall into the following categories:

- make goods and services more affordable, thus extending the purchasing capacity of money
- arrange to make jobs more accessible, giving more people access to earned income
- create means that are outside of the money economy for acquiring income, goods and capital
- create opportunities for citizen-based access to credit
- keep capital within the local community where it can circulate and enhance opportunities for people to earn sufficient livelihoods

Each of these approaches to increasing purchasing capacity has both strengths and limitations. Each has a niche to fill; each has capacity to complement other approaches. In the interest of maximizing community resiliency in the face of economic hard times, it is important to engage a full spectrum of approaches to create, augment and provide equitable means for acquiring purchasing capacity.

It should be remembered that most people who are unemployed and without purchasing capacity are still capable of work and still possess skills. That is, the labor and skills are still there, in the community, and could be put to work.

It should also be remembered that not all labor needs to flow through the money economy. To a certain extent, both civil society and the public sector have the capacity to facilitate acquisition of purchasing capacity outside of the money economy. And, especially in times when the flow of dollars is constricted, the need for alternatives to federal currency becomes more prominent.

Given below are some practical approaches that could function in the context of a multi-faceted strategy for increasing access to purchasing capacity. It is beyond the scope of this paper, however, to evaluate

the potential benefits and limitations of each of the approaches, to assess their capacity to enhance purchasing capacity, or to provide an overall framework and strategy for coordinating their implementation.

In considering the diverse approaches to enhancing purchasing capacity presented below it should be appreciated that the primary approach to insuring purchasing power must be to create a vital and stable economy that can provide meaningful employment to all who are able to work, and fund a sound social service net capable of supporting those unable to work.

Make Goods and Services More Affordable or Accessible

Informal buy and sale networks extend people's purchasing capacity through access to more affordable goods. These exist in such forms as yard/estate sales, classified ads, flea markets, craigslist, etc.

Make Jobs More Accessible

- **Buy local.** Money spent in local enterprises will circulate further in the local community. Buy-local campaigns bring public awareness to the value of shopping for locally made or marketed goods.
- **Public purchases from local enterprise.** So much as may be practical, expenditures by public bodies should be made at local enterprises.
- **Better distribute available employment.** Overtime pay should be discouraged and job sharing, shortened work weeks, and part time work positions should be encouraged.

Income, Goods and Capital Outside the Money Economy

- **SCALE free-cycle exchange.** A “free-cycle” local exchange system creates opportunities for person-to-person exchange of goods and services without need for money or traditional forms of credit. A neighborhood location serves as an exchange center and warehouse, providing people a place to take items they no longer need and to receive credit that can be used to obtain other items in the exchange center. This reduces waste and provides people access to goods and services without need for using money or credit.
- **Barter exchange.** Barter exchange listings allow people to advertise goods, skills and services for exchange within the community.
- **LETS network.** Local exchange and trading systems (LETS) offer a sophisticated accounting of goods and services exchange within the community of people participating in the network. Members of a LETS network earn interest-free local credit through their labor, and these credits can then be used like currency in exchanges with any other member of the network. The LETS system has been successful in a number of communities in giving people significant opportunities to acquire value for their labor outside the money economy.
- **Community currency.** Community (or "local") currencies offer an alternative medium of exchange to US Bank Notes. These currencies are in use in a number of communities. Community

currencies are reported to have three times the rate of transactional exchange as do US dollars, making them comparatively more effective in stimulating local economic activity. Their main limitation is lack of universal exchange value, which creates unevenness of their use value among the different individuals possessing them.

- **Citizen minted currency.** The Liberty Dollar, the main citizen minted currency, is a voluntary barter currency that protects purchasing power. Because the Liberty Dollar is minted from silver, it has proven to be inflation proof. In the past five years, while the US Dollar has lost about 50 percent of its value, Liberty Dollars have seen a 500 percent increase in value.

- **Stamp script.** Stamp script is local currency with a negative interest rate — that is, its value declines at a set rate of, for example, one percent per month. This creates strong incentive to make use of the stamp script currency as quickly as possible, which maximizes the velocity of its movement in the local economy, thereby stimulating economic development. During the Great Depression, stamp script had phenomenal success in reviving local economies in places where it was put into use.

Micro-Credit

A number of developing economies have made successful use of micro-credit systems. The most famous micro-credit program is the Grameen Bank in Bangladesh, recipient of the 2006 Noble Peace Prize. Micro-credit is a proven and effective community based method for stimulating start-up economic activity and creating purchasing capacity in depressed economies.

Fencing Capital

The more money is circulated in the local economy, and the less it is drained out of the local economy, the greater will be its availability — and the greater will be its value — in promoting demand for goods and labor, and thereby increasing local purchasing capacity. It is therefore essential that appropriate measures be taken to keep money maximally circulating in the local economy and to prevent its drainage by outside financial interests. This strategy has been called "fencing capital." Some approaches to fencing capital might include:

- vigorously promote “buy local” campaigns
- arrange preferential treatment or an incentive structure for banks that loan their assets primarily within the local economy
- make no incentives or grants available to outside chain stores, franchises, or manufacturing corporations locating in the local community unless they credibly demonstrate through full cost accounting that their operation will result in an increase in local capital circulation

Excerpted from: “SUSTAINABLE ECONOMIC DEVELOPMENT IN LANE COUNTY: A Solution-Oriented Vision and Practical Recommendations”