

# **Why do diversity and differentiation of community currencies of developed and developing countries arise in globalized and de-industrialized capitalist economy?**

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**Abstract:** The main purpose of the paper is not just to provide any taxonomy of worldwide community currencies (CCs) to classify them into a given categories, but to, assuming a certain taxonomy, explain the socioeconomic reasons and backgrounds of vast diversity of CCs in developed countries as well as prevailing differentiation in between developed countries and developing countries, and understand what such diversity and differentiation of CCs imply for the future of our socioeconomies. To accomplish the end, we need to have some theoretical framework to explain what kinds of long-term tendencies in modern capitalist economies exist and how they determine the characteristics and properties of CCs in developed and developing countries. Modern capitalist economies seem to have two main long-term trends: globalization and de-industrialization including informatization, servicization and financialization. We will discuss how these socioeconomic tendencies manifest themselves and affect peoples' lives and what implication will be drawn for understanding diversity and differentiation of CCs.

Keywords: Community Currencies, Globalization, De-industrialization, Diversification , Taxonomy

## **1. Globalization and de-industrialization: two main long-term trends underlying complicated phenomena**

After the so-called 'golden age' of capitalism in the 1950s and 60s, developed countries have enjoyed long life expectancy and high standard of living due to the completion of economic development during the course of industrialization. People in those countries are now facing with the drastic change of quality of life in environmental conscious super-aging society, i.e., transformation of substance/material-centric happiness into relation/information-centric one. Nevertheless, developed countries had severely suffered from unemployment and economic disparity formed during repetitive financial crises and prolonged economic depressions. They are also experiencing the demise of communities such as families and neighborhoods and the decay of local economy. It is what market penetration brought about in globalization of capitalist economy. There are thus two main reasons why the people seek CCs in developed countries: to revitalize various types of communities and/or to encourage local economies. This division creates diversity of CCs in those countries.

On the other hand, developing countries have not yet reached the stage with similar situations and problems to developed countries. They are at present struggling to realize economic development and poverty eradication through industrialization, while the senses of community in families and neighborhoods are still strong enough to antagonize market penetration in globalization. Accordingly, they need to have the CCs (sometimes combined with microcredit scheme as in Palmas Bank) mainly to accomplish such goals as described above. National economic and social

environments in developing countries are thus different from those in developed countries even in the same global economic age today. This eventually leads to differentiation of CCs between them.

Thus CCs cannot be evaluated independently of economic and social environments as their backgrounds in which people are located. We have to conduct activities and experiments of CCs seriously considering such evolutionary perspective. For example, the successful ideas and schemes of CCs cannot be freely copied from one nation/place to another.

After the 1990s, bubble collapse and financial crisis had been repeated worldwide. In the 1990s in Japan, the stock and land price plunged and Heisei bubble burst and some major banks with enormous bad loans bankrupted. It made serious impacts on the real economy of Japan. Because consumption and investment had been reduced due to the negative wealth effect and the corporate earnings deterioration, aggregate demand shrinkage and general price decline mutually intensified, which resulted in deflationary spiral. Non-regular employees have increased through rationalization of corporations and income and asset disparities among regions and individuals have widened in the long-term recession called 'the last two decades'. But, the fiscal and monetary policy for economic recovery was hardly successful, or the effect of such symptomatic treatment was at best temporary. In order to consider the cause of occurrence of these problems since the 1990s, we need to trace back to the 1970s.

Since the mid-1970s in the US and Europe, slightly late in the 1980s in Japan, such a series of neoliberal economic policies as liberalization, deregulation and structural reform have been actively adopted. They caused the real and financial economy to be unstable through collapse of asset bubble and successive financial crises. It resulted in the increasing unemployment rate and economic gap between the rich and the poor. Fiscal and monetary policy had been repeatedly conducted in order to deal with these problems during 'the lost two decades' in Japan. It was an attempt to correct defects of liberalization and deregulation, assuming those policies to be basically correct. This is true of many developing countries including Brazil and Argentina in South America as well as developed countries. The theory of "neoliberal cycles" (Alcorta 2009, Sano, 2012, 2013) explains 10-year medium-term business cycles as being formed by neoliberal interests, ideas and policy. The argument emphasizes that policies and ideas determine the economy, contrary to historical materialism insisting that the economic substructure determines the political and ideological superstructure.

It is undeniable that such medium-term business cycles exist and political interests and economic thoughts might affect the cycles through economic policies and institutions, but the present article attaches greater importance to the effects of long-term trend of globalization and de-industrialization as the economic background just because we are interested in diversification and differentiation of CCs as long-term tendencies in evolution. The remarkable economic development of BRICS since the late 1990s after the breakdown of socialist economic regime clearly showed that, even if subordinate and dependent relations between developed and developing countries described as 'dependency theory' used to exist, they are not fixed structures that last perpetually. Seen from the long-term trend of economic growth, the developed countries have already passed industrialization in the 1970s to 80s and subsequently transformed their industrial structure and demand trend for service and knowledge-based economy long before the developing countries. This is why there exists the great disparity in the current economic situation between the developed and developing countries that both have been placed under similar neoliberal cycles. Such different positions on the long-term trend of economic development, not any inherent cultural and national identities, are more likely to produce the difference of the characteristics and acceptance of CCs between developed and developing countries.

De-industrialization is a tendency observed in developed countries since the 1970s to shift the center of the industrial structure from secondary industry to tertiary industry at both sides of added value and employment. It can be explained as a composite outcome of the two distinct trends:

informatization and servitization (Nishibe 2014a). It is conventionally accepted that the cause of de-industrialization lies in the demand decrease (caused by demand saturation) and improved productivity of the industrial product (Rowthorn 1987). But “qualitative transformation” of human desire and needs (like Maslow’s hierarchy of needs) on the course of economic growth is taken as another crucial factor. As developed countries succeeded in accomplishment of industrialization and improvement of living standards, people had begun to seek qualitative improvement of their necessities and various luxury goods rather than quantitative affluence of necessities.

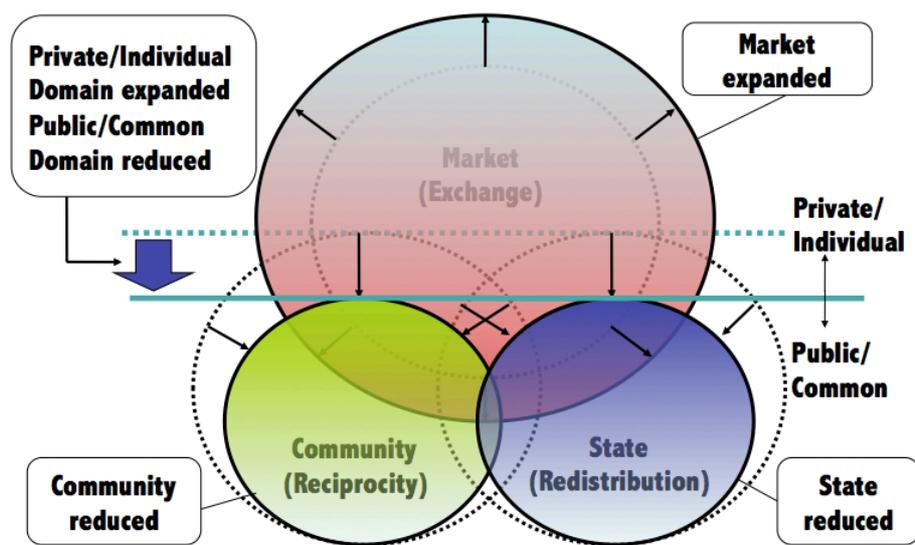
Furthermore, the way of our desire and subjective happiness becomes highly advanced and diversified, and the center of affluence shifts from industrial products (materials) such as the cars, electrical appliances and house to such knowledge-based and service-oriented things (situations/relations) as health, trust, social bonds, mental tranquility, natural environments. Consequently, we have come to make much of information (science, technology, skills, techniques, software, data) and service (law, finance, education, medical service and human care). In short, de-industrialization can be interpreted as such a phenomena that the concept of richness for people reaches a higher dimension and becomes diversified if once the material richness was realized to some extent by the industrialization, and information and service thus relatively gained more significance and value than before.

We have recently seen the several signs that indicate the aforementioned points. In developed countries, much attention has been attracted to such new well-being indicators as Human Development Index (HDI) and Gross National Happiness (GNH) as alternatives to GDP per capita in order to multi-dimensionally measure people’s living conditions and societal progress (Stiglitz, Sen, Fitoussi 2010, Kusago, Edahiro, Hirayama 2011). Easterlin indicated that people’s subjective happiness declines despite of increasing GDP per capita (Easterlin 1974). Such a happiness-income paradox has been widely observed in all the developed countries. Furthermore, as globalization proceeds, the information and service that had not been produced for profit have become commodities for sale and the added value increased in GDP might amplify de-industrialization.

The present paper describes economic globalization as a particular phase of evolution of capitalist economy as follows (Nishibe 2011, 2015). There are three basic and coexisting institutions for economic coordination in every socio-economy: 1) Market (a private principle for free exchange), 2) State (a public principle for equal distribution) and 3) Community (a common principle for fraternal reciprocity)(Polanyi 1944). It is maintained and reproduced by forming a balanced mixture of those three principles. Market economy is the socioeconomic system where agents buy and sell major goods and services as commodities by means of money. Its main principle is Market although State and Community are partially and constantly at work. From the perspective of socioeconomic evolution, markets emerge between communities and/or empires (states), gradually expand and finally penetrate to the interior of those (Marx 1970, 1976). Such a tendency might be called “internalization of market,” which keep functioning in capitalist economy despite being normally invisible and temporarily hindered or constrained by other principles. Capitalist market economy is the specific socio-economy where commercial enterprises make profits through producing almost all goods and services by employing labour-power and utilizing means of production and selling them as commodities. It was historically established in the 19th century UK as a particular type of market economy, which integrated all substantive aspects of socio-economy and spread through the whole world. In capitalist economy, Market is the most fundamental principle for organizing socio-economy, but the other principles such as Community and State complementarily functioned as “safety nets” to cover the weak points of the market because only the market is unable to deal with such “fictitious commodities” (Polanyi 1944) as money, land and labour that are not originally produced and traded as commodities. Capitalist market economy is thus defined as the combination of ‘general commodification’ (profit-purpose production in market) of general goods and ‘external commodification’ (fictitious commodification outside communities and states) of labour-power through “internalization of Market” (Nishibe 2015).

Thus we depict globalization after the 1970s as the self-manifesting tendency of “internalization of Market” in capitalist market economy where Market gradually replaced State and Community as Market expanded and State and Community reduced (Fig.1). Under a global capitalist economy, not only ‘extensive expansion’ but also ‘intensive deepening’ of Market proceeds. In the former the market becomes wider geographically or spatially, but in the latter Market becomes deeper because all sorts of intangibles including knowledge, information, claim and risk besides material things are increasingly commodified.

**Fig. 1 Globalization**



Capitalist market economy, on the one hand, is apt to replace states and communities with markets and, on the other, utilizes laws of state and conventions of community regarding ‘fictitious commodity’ as safety nets for markets. It has the universal nature not only to turn any materials, information, services as well as labour-power into ‘fictitious commodities’ for sale but to deal with a bundle of such claims as bonds, stocks, real estates, derivatives, naming rights and even ‘human capital’ that is another name of human ability of gaining income based on utilizing embodied knowledge and skills as ‘fictitious capital’ (Marx 1981) for profit opportunities. If the long-term tendency of globalization as manifestation of ‘internalization of Market’ were to be extended to the future, an ideal type of capitalist market economy that consists of only Market excluding State and Community would be found. The ultimate model of globalization is thus “free investment capitalism” where all human behaviors and choices are regarded as investment and ‘fictitious capital’ is ubiquitous. The diffusion of such ethos forces people to pursue efficiency, convenience and pleasure beside money income and expels cooperation and altruism (including selfishness in the broad sense) involved in reciprocity and mutual aids in a community like a family and a neighborhood. The tendency of ‘internalization of Market’ fundamentally causes a variety of socioeconomic phenomena such as decline of norms and ethics, demise of traditions and customs, and loss of safety and security. Thus long-term self-organization of capitalism is the underlying socioeconomic principles deep under mid-term economic cycles and neoliberal policies and ideology are its facial reflection.

## **2. Community currencies as integrative communication media of money and language**

As we have just seen, globalization involving expansion and deepening of Market as well as reduction and shallowing of State and Community has lead to severe problems with regard to society, culture and environments. The present institutions of money in capitalist market economy are national/regional currencies or central banknotes as US Dollar, Euro and Japanese Yen, out of which US dollar is a global key currency. Hayek criticized such problems as excess issue and artificial

inflation caused by national monopoly of money, and proposed denationalization of money involving concurrent currencies as desirable institutional design for ‘good money’ (Hayek 1976). Nevertheless, Euro started as a regionally unification of European national currencies completely opposite to Hayek’s insistence in 2001 and its basic idea has been widely accepted although enormous public financial deficit of PIIGS (especially Greek) have recently caused EURO a serious trouble. Bitcoin propagated during the Cyprus crisis and more than hundreds of such crypto currencies have appeared.

In the 1980s, people had begun to take initiatives, by inventing and introducing many kinds of variants of social and private money, to vitalize local communities and economies against neo-liberalism and globalization. It eventually produced a new possibility of changing the nature and concept of money. CCs are conceived as ‘integrative communication media,’ equipped with both sides of economic media as money and social/cultural media as language, designed to activate local economy and community by restricting its usage within certain local areas in order to encourage local circulation of energy and material for a sustainable and recycling local economy of ‘local production for local consumption’ (Table. 1)(Nishibe 2012).

**Table. 1 CCs as Integrative Communication Media**

<b>Sides</b>	Money (Economic media)	Language (Social and cultural media)
<b>Purposes</b>	Vitalization of local economy (autonomy, circulation, recycling)	Rehabilitation of community (dialogue, interchange, commitment)
<b>Functions</b>	Independent design, issuing and administration Bounded sphere of circulation Zero or minus interest	Ferment of trust and reciprocity Cooperative ‘prosumers’ Linguistic expression and transmission
<b>Forms</b>	Complementary currencies and Emergency currencies (Stamp scrip, LETS)	Mutual-help coupons (Time Dollars, Eco-money)
<b>Domains</b>	Market	Community

Although CCs have a great variety as to purposes, functions and forms, they can be simply identified by taking note of the mixing rate of the money side to the language side in CCs. This is because the mixing rate expresses the present states of communities and the aimed purposes and functions of CCs. In cases of stamp scrip in North America, WIR in Europe and CC coupons (CCs in the form of redeemable coupons) in Japan, they mainly target for promoting commerce and trade in local shopping street and local economy. Then the money side is stronger than the language side in such CCs, so they should be called ‘business activating type’. On the other hand, in case of Time Dollar in North America, Time Banking in UK, and ‘Fureai Kippu’ (the time deposit type of CC) and Eco-money in Japan, they aim at encouraging volunteer work and mutual help and strengthening human connections within communities. The language side is stronger than the money side in such CCs, so they should be called ‘volunteer activating type’. The former is used both for commercial trade of goods and services in the market and non-commercial trades of those in the non-market (community), but the latter is exclusively used for non-commercial services (volunteer work and mutual help) in the non-market (community). Many CCs like LETS are located in between them. However different the mixing rate of both sides is according to the current situations, all CCs are the same as the institutions designed for combining businesses motivated by selfish profit in Market and volunteers motivated by altruism or reciprocity in Community. This is why we call CCs integrative communication media.

The purposes and functions of CCs are as follows: a) to aim at mutual aid and reciprocal exchange with the money that can be used only locally, b) to solve the deflation and unemployment problem by building up an autonomous growth of the healthy local economy through circulation within the limited local region, c) to prevent excess credit creation and speculation from resulting in financial instability and activate local trades of goods and services with zero or negative interest rate, d) to evaluate non-market services for personal welfare and care from a variety of viewpoints, e) to present philosophical grounds to associate various activities related to labour, consumption, welfare and environments of NGOs and NPOs, and f) to build “trust” among people and turn monistic cash nexus into more diverse and rich communications. Here, it is easy to see that a) to c) are economic and d) to f) are social and cultural purposes and functions.

CCs try to make bottom-up solutions to the problems such as decline of local economy, collapse of community, declining birthrate and aging, and destruction of natural environments. They take the forms of grass-root movements or community businesses and are designed and operated by citizens and organizations (neighborhood associations, shopping district, Chamber of Commerce, municipalities, cooperatives, NPO, etc.). CCs do not mediate public welfare and social insurance services because they are not official institutions like national currencies but informal institutions and policies to promote the mutual aid and reciprocity by the community. They are created and spread through the non-profit activities of people.

According to the survey on 464 CCs in Japan conducted in 2008, the actual purposes (number, %) of CCs are found as follows (Kimura 2008). 1) Vitalization of local community (296, 63.8%), 2) activation of local economy (89, 20.7%), 3) solution for environmental issues such as garbage and recycling (48, 11.2%), 4) local production for local consumption especially agriculture (18, 4.2%), 5) preservation of woodlands and forestry (14, 3.3%), and 6) the others including (65, 15.1%). Because multiple answers are permitted for this question and the summation of the number (530) is bigger than the total number (464), although there are many small CCs included, some portion of them have two purposes and more as we assume CCs as integrative communication media. We understand that the side of social and cultural media in CCs in Japan is far more significant than that of economic media from the observation that the percentage of ‘vitalization of community’ is more than three times of that of ‘activation of local economy.’ This would be more or less true of other developed countries.

The prehistory of the community currency dates back to the labor money of Owen and Owenite or Ricardian socialists in the 1820-30s, the People's Bank of Proudhon in the 1840s and the stamp currency of Gesell and Fisher in the 1920-30s. The labor money of Owen and others aimed at people's obtainment of right to the whole produce of labor based on the labor theory of value claiming that value of a commodity is determined by the amount of embodied labour to produce it. The People's Bank of Proudhon provides free credit for the purpose of correcting inequity of exchange. Silvio Gesell's stamp currency promotes consumption and investment by imposing demurrage, i.e. minus interest for hoarding money so that money will depreciate as time just like general goods and creating the incentive to pay it as early as possible (Gesell 1958).

Until the first half of the 1970s, both socialist planned economies and effective demand management policies have strengthened the state's intervention in the market. As we have already seen, ever since till now, economic globalization and de-industrialization have characterized the socio-economy. Not only market economy spread globally but also what has not been traded with the money as services (child care and nursing care in the family, etc.), information (software, personal information etc.) and right (naming rights, carbon-emission rights, futures and option) has been commercialized.

As globalization as the tendency of Market to rapidly expand and deepen and of State and Community to reduce and shallow proceeds, we encounter not only economic problems such as financial instability and chronic recession with unemployment have occurred, but also social issues such as declining birthrates and aging, dissolution of communities in locality, neighborhood and

family, and global environmental issues such as global warming by greenhouse gases (carbon dioxide and water vapor) and air pollution by PM 2.5. Modern CCs emerged all over the world as attempts or movements to give solutions to these issues and to regain sustainability of our socio-economy.

Globalization has clearly divided interconnected socio-economy into money tradable economic domains and non-money tradable socio-cultural domain and thereafter expanded the former as Market and reduced the latter as State and Community. Various problems above described occurred as a result of such bipolar separation and prosperity/adversity of two domains in globalization.

As the market principle on exchange has become dominant and, on the other, the state principle on redistribution and the community principles on reciprocity have diminished, selfish business of profit seeking has become bloated in the economy domain, and altruistic volunteer of free service has been highly praised in socio-cultural domain. In short, globalization has created the double Trinity as <market = economic = business> and <community/state = socio-cultural= volunteer>. However, unlike community-based reciprocity and mutual help, unilateral gratuitous volunteer activities in socio-cultural domain promoted by globalization do not last long but, furthermore, may do harm to self-esteem of recipients when they feel themselves incompetent as they cannot return anything. If we understand CCs as integrative communication media to counter globalization, they should encourage people to do mutual help as members of communities rather than to do graceful gratuitous act as independent individuals. CCs would therefore become practical movements that intended to integrate double Trinity of the economic and socio-cultural domains and to realize a sustainable reciprocal exchange system.

### **3. Difference between developed and developing countries, diversification of CCs due to globalization and de-industrialization**

CCs spread worldwide rapidly in the 1990s. The number of CCs in the world was estimated to reach 4,000 (Lietaer, Dunne 2013) and that of Japan was counted 259 in December 2008 (Izumi 2013) and 662 in January 2011 (Tokutome 2011). In Japan several volunteer citizen groups initiated CCs in the late 1990s, then local governments, Chambers of Commerce, private corporations had gradually join as partners or promoters of CCs, and many NPOs were established mainly for management and administration of CCs.

Since 2003, the national government had launched a succession of policies to promote and support CCs such as provision of computer network systems, approval and establishment of special zones for CCs and subsequent nationwide deployment of such deregulation zones. In those zones, local gift certificate was permitted by the central government to circulate multiple times like currency and such an invention as to achieve the same effect as CCs by using local gift certificate was widespread across the country. It actually meant removal of the usual condition for CCs that they are non-redeemable with legal tenders. Although the volume of circulation of CCs has increased rapidly in the course of the trial and error because they underwent the support measures of central government, many of them are only short-term experiments, not long-lasting.

CCs are regarded as species of money institution in evolution with many types of variations different from the conventional ones that struggle to exist in trial and error in ever changing environmental conditions. So a population of CCs that could manage to fit to such changed environments would only survive and prosper. Existence of CCs as institutions depends on the change of environmental conditions as other institutions that consist both of the external rules of capitalist market economy as the currently dominant socioeconomic system and of the internal rules of behavior, values and motivation of human beings who keep living in the external institutions. Truly, as far as the short terms are concerned, CCs are subject to the local environmental conditions such as the situations of local communities where CCs are implemented and the value and norms of the people living in them.

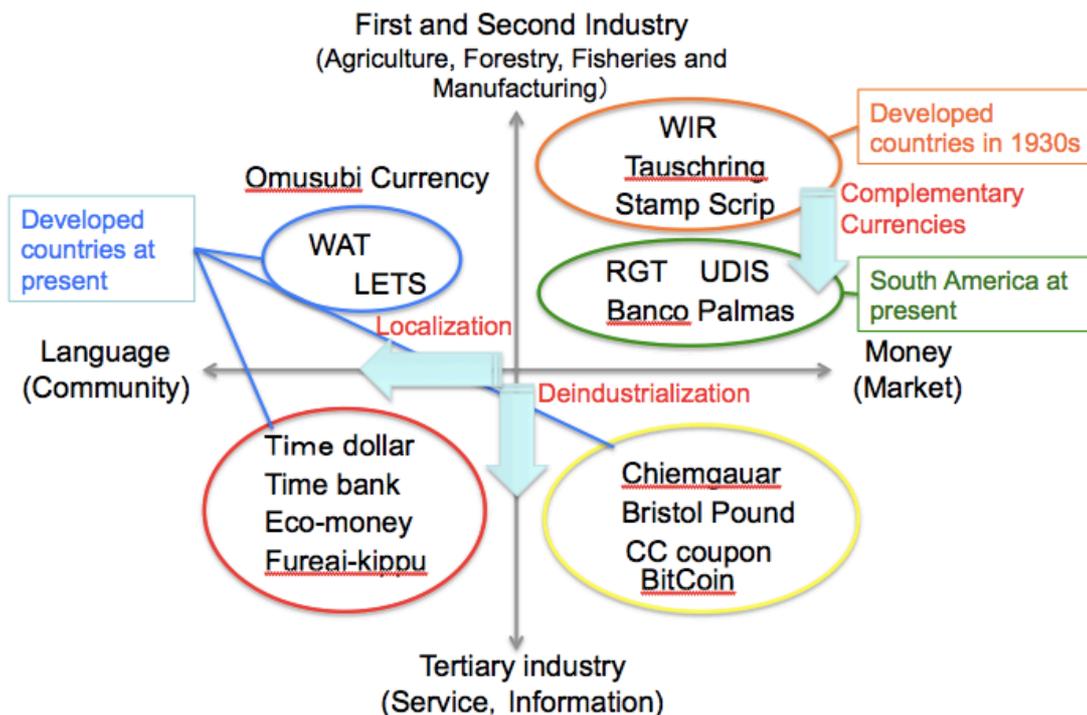
But it should be recognized that such local conditions are also largely determined in the longer terms by global conditions if the local systems are open to outside of it. On the other hand, local environmental conditions can gradually vary depending on the impacts of activities of human agents through CCs.

In other words, agents and local institutions reproduce themselves and affect each other to change through mutual interactions between them under the long-term change of external environments including global institutions. In such an evolutionary process, CCs not only be selected out by the environments, they can change the existing environments and produce the new one. Even the same scheme of CC may or may not survive according to the difference of the conditions of environments and agents. Therefore, we cannot define fitness or adaptability of each CC independently of such conditions and it would be wrong to seek the cause of failure of CCs in themselves and misleading to try to indicate the best scheme of CC with reference to the best performance practice.

In the environmental conditions where national currencies and the market principle show propagating powers in globalization of capitalist economies, CCs based on the reciprocity principle cannot easily spread. The biggest challenge of CCs is how to make them viable in the long run in such severe conditions. The important key for it is how to induce the states of a local community as well as the norms and values of local residents to make initial moves large enough to exceed the thresholds for triggering dynamically accumulative process in order to change the whole evolutionary system. In that sense, there is much to learn on how to make an initial turn of local environments in currency innovation from the case of Banco Palmas that we will see later on.

CCs have been widely practiced in developed countries as well as developing countries as in Latin America. While the main purpose of CCs in developed countries is to vitalize local community as in Time Dollar in North America and Time Banking in Europe and Eco-money in Japan, that of CCs in developing countries is to activate local economy as in Red Global de Trueque in Argentina, Banco Palmas in Brazil and UDIS in Ecuador and El Salvador (Primavera 2013, Kinoshita, Hayashi 2014)

**Fig. 2 Diversification of CCS**



**Fig. 2** describes diversification of CCs. Firstly, a large difference is found in the purpose and form of CCs because there is a big gap in the economic conditions between developed countries and developing countries. Developed countries have already completed industrialization and economic development, reached globalization under de-industrialization after achieving high standard of living. Since globalization has brought about decline of local economy and resolution of local community including family and neighborhood, both CCs for activating the local economy and those for revitalizing the local community can coexist. The reason why such community revitalization types of CCs as Eco-Money have grown in a cluster in a super-aging society as Japan was because there had been a very strong demand for volunteer work (proxy shopping, snow shoveling etc.) and mental care (someone to talk with) for elderly people that cannot be covered by public welfare services because of budget deficit problems. De-industrialization of the economy has made service and information industry more significant than agriculture, forestry and fisheries as well as manufacturing industry.

Once basic needs for necessities are satisfied, human desires have highly advanced and subjective happiness has diversified. People have become more strongly aware of global environments, health and social trust and bonds. In this way, the CCs of developed countries have split into three groups such as Local/ Territorial, Cultural/ Community and Economic/ Complementary surrounded respectively by blue, red and yellow circles along two axes. Quite Interestingly, the taxonomy thus obtained exactly corresponds to the one presented by Blanc (2011). Here, it should be noted that Local/ Territorial, Cultural/ Community and Economic/ Complementary CCs are located in the second, third and fourth quadrant divided by the horizontal axis of globalization/ localization and the vertical axis of industrialization/ de-industrialization. Martignoni (2012) proposes a 4 dimensional (purpose, trust, creation, circulation) taxonomy that gives us 'practice oriented categorization' with more subtlety. But it doesn't refer to *real* tendencies or changes in an external socio-economic environments. In that sense, Blanc's taxonomy is much simpler but substantively superior because it can grasp 'reality oriented categorization' of CCs. The present paper presents explanation of evolution of CCs. We can clearly understand that the two long-term tendencies exist as the *real* causes that generate such diversification of CCs and therefore explain why and how diversification of CCs arises in response to actual issues and people's needs/wants in a certain time and space. Accordingly, it is possible for us to explain the following case of developing countries.

In contrast with developed countries, developing countries are still on the way to economic development through industrialization. As standard of living is not high enough, economic development and poverty eradication are top priority issues. Although developing countries also suffers equally with a developed country from financial crisis and environmental disruption that globalization brings about, it is not so important as economic growth and elimination of poverty. In the developing country the issue of aging society has not yet come and local community as family and neighborhood are still deep-rooted. So economic development and poverty eradication are perceived as urgent problems, and microcredit and CC movements for realizing them have become superior. The present issues of CCs in such developing countries are rather similar to those of CCs of developed countries in the 1930s when their main purpose are the economic activation to get away from depression and overcome severe unemployment problems after the Great Depression.

In this way, the present developing countries' CCs surrounded by a green circle are located in the first quadrant just below the developed countries' CCs in the 1930s surrounded by an orange circle. These are classified as Economic/ Complementary CCs. Developing countries have not reached the diversification of CCs --- Local/ Territorial, Cultural/ Community and Economic/ Complementary -- found in developed countries whose socioeconomic environments are different, but they would move toward diversification as economic growth are accomplished and average standard of living improves. Such an evolutionary viewpoint is effective for the theory and practice of CCs. Now let's consider Banco Palmas, Brazil as a specific example to show what we have just explained above from an evolutionary viewpoint with regard to differentiation and diversification of CCs.

#### **4. Banco Palmas with its CC and microcredit scheme based on solidarity economy principle**

More microcredit schemes rather than CCs have been established in developing countries that face with a challenge to tackle poverty and economic development problems since 1980s. Microcredit (also called “microfinance”) originated with Muhammad Yunus who founded Bangladeshi Grameen Bank in 1983. It is an attempt to provide mutual aid groups of collectively responsible members with small business funds, for the low-income people’s economic independence and improvement of the quality of life.

Banco Palmas, which was established with the readership of Joan Joaquim Melo Neto for activating local economy in 1998 in the suburb of Fortaleza, is not the same as conventional microcredit scheme because it introduced a local currency as well as microcredit. The uniqueness of Banco Palmas lie in the fact that it issues its own local currency named “Palma” and provide Palma-based microcredit for the purpose of financial support for small businesses and activation of local economy. It is an innovative project to make use of the strengths of both community currency and microcredit by integrating them in the function of Banco Palmas as the local central bank, and to attempt to build solidarity economy in which a bank and a community cooperate to advance together.

As mentioned in the previous section, the environment-independently fitness of CCs cannot be defined. The same applies to the case of Banco Palmas. However it prospered in a specific socioeconomic environment in Brazil, it cannot be proved that it would necessarily adapt itself well to different environments of other developing countries and developed countries. Keeping it in mind, we will examine what backgrounds and characteristics Banco Palmas had, how local businesses and people have come to accept Banco Palmas, why Banco Palmas and its approach could contribute to the development of local and regional economies by way of its widespread diffusion in Brazil and, finally, whether or not it can be replicated and transplanted in other developing and developed countries. It should be noted that the following descriptions are based on study report (Nishibe, Hashimoto, Kobayashi, Kurita, Miyazaki, Hirota 2012) and a joint workings paper (Kobayashi, Hashimoto, Nishibe 2012) on the field study on Banco Palmas conducted in February 2011 and that they are published in Japanese and unpublished in English.

Banco Palmas is a community bank in Palmeiras district, in the outskirts of Fortaleza, Ceará state of Northeastern Brazil. When resort redevelopment projects along the coast of Fortaleza was officially authorized and promoted in the 1970s, local fishermen and others were driven to the inland. More than 30,000 such people formed Palmeiras district in 1973. In 1981 Palmeiras neighborhood association association of residents (ASMOCONP: Associação de Moradores do Conjunto Palmeiras) (abbreviated hereafter as "the neighborhood association") was established for the purpose of improvement of living conditions in the district that used to be a slum street without basic infrastructure. The neighborhood association won such infrastructure as schools, health and medical cares, traffic, electricity, water and sewage, by the negotiations with the state government, but the cost of living in the district soared. The inhabitants in the district never led comfortable life and local produces could not get loans from commercial banks. In such a severe situation, Banco Palmas was established in January 1998. In 2000, Banco Palmas started to issue its local currency named “Parma” that circulate only in the district in order to create jobs and revitalize regional economy (**Fig. 3**).

The local currency “Palma” can be exchanged for legal tender “Real” at a fixed rate of "1 Palma = 1 Real". Banco Palmas provides microcredit in both the legal tender and the community currency for local inhabitants. The local producers and shoppers are permitted to apply for loans to a maximum of 15,000 Reals with the interest rate ranging from 0.5% to 3.5%. The credit for each consumer is also available to a maximum of 600 Reals either by Parma notes or by ParmaCard, a local credit card only available at the stores in the area (**Fig. 4**).

**Fig. 3 Five Palmas note**



**Fig. 4 PalmaCard(a local credit card)**



240 stores, approximately 90% of all stores in the district, receive Palma, and an average of 5% is discounted if purchases are made in Palma. Banco Palmas provides such loans for house reforms and microinsurance as low-income people cannot usually enjoy. Furthermore, Banco Palmas directly supports such businesses as production and/or sale of cloths (Palma Fashion), detergents (Palma Limpe), and accommodations (Palma Tur), and also carries out vocational training. If young generations receive the training and then get jobs, it could not only create jobs but also contribute to crime prevention, leading to regional development.

Notably, Banco Palmas introduced the local currency Palma because it can naturally balance local consumption and production. To realize local production for local consumption, they introduced a new concept 'prosumer'<sup>1</sup> who is not only a producer but also consumer, and even a social activist. Banco Palmas biennially makes a map of local production for local consumption by investigating all the shops and their merchandise in the district so that it can select particular producers and give them priority of financial assistance so as not to produce excessive competition, taking into account the restricted volume of aggregate demand in the district (Fig. 5). Here Banco Palmas requests selected borrowers to become prosumers.

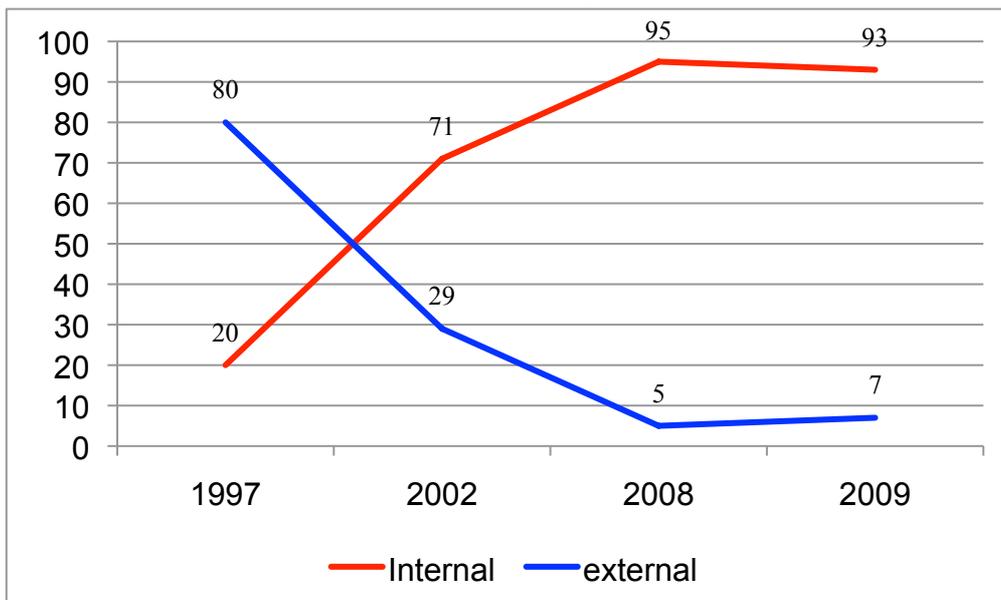
<sup>1</sup> It is the concept that Alvin Toffler proposed in *The Third Wave* (Toffler 1980) to symbolically express that the way in which socioeconomic works will approach to self-help and mutual help in informational age.

**Fig. 5 Mapping categories of businesses in Palmeiras district**  
 (Green: services as barber, car repair, Yellow: restaurants etc. blue: factories)



Palmas Bank has succeeded in entrepreneurial promotion within the area by providing loans at a lower interest rate than a commercial one for low-income residents of the area. More than 1,200 employment as a total is created in Palmeiras district in which 32,000 people of 5,000 households live in as of December 2011 (Currency Solutions for a Wister World, 2010). While the purchase rate of daily necessities within the district was only 20% initially in 1997, it increased up to 93% in 2008 as a result of promoting local production for local consumption by introduction of Parma (Fig. 6). We may say that Palmas Bank had succeeded in inducing autonomous development of the local economy in just 10 years. Producer credits amount 4,470 cases for total 3,660,991 Reals in 2012, and consumer credits amount 230 cases for total 33,000 Parma (its balance is 44,000 Parma).

**Fig. 6 The rate of necessities purchase inside/outside Palmeiras district (Blue: inside the district, Red: outside the district) from Kobayashi, Hashimoto, Nishibe 2012**



Clearly, most of residents in Palmeiras district agree that Banco Palmas has led to improvement of their standard of living. Because, according to the 2008 survey conducted by University of Ceará State and Ministry of Labour and Employment for 4,000 residents living in the district on Banco Palmas, 98 % of respondents answered 'Banco Palmas contributed to development of Palmeiras district.' Out of them, 25.25% responded 'Their income increased' and 20.2% answered 'They found their jobs' (Silva Jr. 2008). In the interview with us, the founder of Banco Palmas, Mero Neto, said that the role of the community currency in the future should be reviewed because lower income earners decreased and the initial goal that most residents shop inside the district was already fulfilled and that even if the local currency would function more symbolically, local production for local consumption cannot be maintained without it.

## **5. What is the lesson from Banco Palmas?**

What we found out during our stay in Palmeiras district was that not only the bank office, ATM of Brazil Bank, the neighborhood association and public plaza but also workshops for Palma Fashion and Palma Limpe, Palmas Institute, training facilities and shop all lie in the land of Banco Palmas, and that accommodation, music studio and training center are gathered along the main street of the district just in front of Banco Palmas. All of these form local networks for practicing solidarity economy. The neighborhood association ASMOCOMP based on a local community rather than Banco Palmas is located at the core of such network.

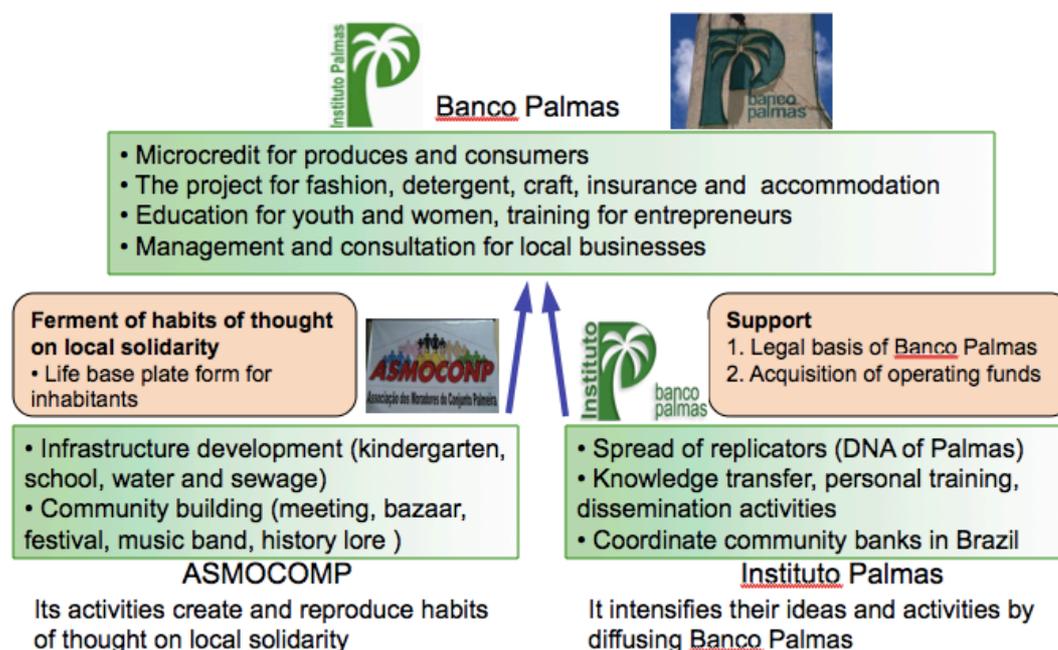
Local socioeconomic forum (O Fórum Socioeconômico Local: FECOL) held every Wednesday in Banco Palmas is not only for local meeting but also for public gathering involving young people. Such performance as dancing and singing songs make the younger generation feel much easier to join in the forum. Many members of Palmas Company, the music group organized by the youth in the district Bate, also participate in it. Besides, monthly bazaars are open only for pedestrians in the main street in front of Banco Palmas. The association thus endeavors to induce young people to stay in the community by continuous and comprehensive local activities and ferment their sense of participation.

How on earth was the neighborhood association formed? Many residents from the outset had indispensable needs for the necessities in life such as construction of infrastructure, eradication of poverty, improvement of standard for living, local production for local consumption and prevention of crimes. Local community was spontaneously self-organized by sharing the clear goals as fulfillment of such needs. Then local community set up the neighborhood association for political unity to create collective power and the neighborhood association organized residents and negotiate with the administration to accomplish the shared goals. Banco Palmas was established as a means to solve economic problems that could not be realized by the neighborhood association. Local residents seem to have strong self-esteem and self-awareness to their history in which they by necessity had built and raised Palmeiras district by themselves. Such firm self-consciousness lies at the center of a sense of solidarity in local community. That is straightforwardly expressed in ASMOCOMP' charter stating that 'God created the world but we created Palmeiras district.' Once ASMOCOMP rooted in local community succeeded in creating residents' positive evaluation on local solidarity as the historical primitive memory, the thereafter-continuing activities of ASMOCOMP keep reproducing constant value consciousness as habits of thought or 'inner institutions' of the residents. The reason why local currency 'Palma' smoothly circulated in Palmeiras district is because the local community and the neighborhood association that had complimentarily strengthened prior to Banco Palmas give strong support to establishment of Banco Palmas. Since Banco Palmas was based on and sustained by cohesive local community and ASIMOCOMP, it could grow rapidly.

The neighborhood association joined in the creation of Brazilian Network of Solidarity Economy in 2002, and their activities proved to be solidarity economy. When National Secretariat for Solidarity economy (SENAES: Secretaria Nacional de Economia Solidária) was established under the Lura administration in 2003 and the support of the federal government for solidarity economy made clear,

Banco Palmas partnered with SENAES and Instituto Palmas was established to function as follows: 1) network domestic community banks (assistance for adopting community banks into other regions), 2) collect information and perform public relations, 3) carry out logistical support (acquire operating funds, establish of the legal basis and etc.). As a result that Instituto Palmas had widely spread the system and experiences of Banco Palmas, more than 30 Banco Palmas type of community banks were founded in Brazil in 2012 and the total number of community banks in Brazil reached 103 (37 in Ceará) (Instituto Palmas 2012). The similar banks are also present in Venezuela, are planned in Uruguay and Argentina. In this way, Banco Palmas grew based on the neighborhood association rooted in the local community. It also transmitted its experience and know-how to other regions via Instituto Palmas, and supported to build the community banks in other regions (**Fig. 6**).

**Fig. 6 The relation between Banco Palmas, ASMOCOMP and Palmas Institute**



Based on the above, let's think about what kind of suggestions Banco Parma gives to solidarity economy and CCs in developing and developed countries. Developed countries have not witnessed so far such a trial as Banco Palmas to integrate microcredit and CCs. The first question should be why it is so? As we explained above, developed countries are now troubled by the decline of local economies and the collapse of local community including neighborhood and families due to economic globalization and de-industrialization as well as aging society with low birth rates. Accordingly, they have more needs for the CCs for both activating local economy and revitalizing community (or for the latter only), but they have fewer needs for the microcredit schemes designed mainly for poverty eradication and economic independence for the poor. Even though both developed countries and developing countries have been situated in the same medium-term socioeconomic environments as in "neoliberal cycles", they have different dimensions of long-term socioeconomic environments. Then such a divergence in developed and developing countries must be the most important factor that eventually leads to the different directions of solidarity economy with CCs and microcredit.

Therefore, it is necessary for developed countries including Japan to reconsider the idea of the solidarity economy, particularly the meaning of freedom, competition and cooperation from the viewpoint of the long-term trends, not middle-term cycles. If the solidarity is narrowly understood as mere criticism to neoliberal thoughts as libertarianism and policies as deregulation, there would be a

danger of falling into a simple dichotomy of negating freedom and competition in the market vs. the bureaucratic planning of the state and discrete intervention of the elite. Rather solidarity economy is more widely viewed so as to criticize the monetary and financial institutions and insatiable greed for profit of pursuit peculiar to capitalist market economy as well as investors' mentality of individuals or groups as unlimited extension of profit-oriented motives to all socioeconomic domains indicated in globalization. Thus solidarity economy need to appreciate such good sides of freedom and competition as to create novelty by innovation in the market at first, and then aim at realizing a better non-capitalist market economy as an alternative to capitalist market economy. If there are a variety of non-capitalist meanings of freedom and competition, we should take account of their positive implications. For example, industrialization based on Taylorism and Fordism made small kinds of mass production dominant. In contrast, a flexible manufacturing system in modern de-industrialization after 1980s could realize various kinds of small quantity production according to different tastes of individuals because more value is attached to diversity of needs and process or product innovation. With respect to dominant information and service industry in developed countries, much more appreciated are the freedom and competition in terms of innovation to create new information on technique, design and functions, new contents as character information, program, movie and music and new services including food, education and medicine, rather than the freedom and competition regarding economy to scale, rationalization, exploitation of price and wage disparity between developed countries and developing countries, and price competition based on cost reduction. The former kinds of freedom and competition produced free /open-source software, Copyleft/ creative commons as criticism to excessive claims of intellectual property rights.

As it can be seen from the above, freedom and competition on innovation in capitalism is not seen as its disadvantage but rather its advantage. Therefore, CCs should neither simply negate freedom and competition in Market, nor affirm reciprocity and redistribution in Community and State. CCs could be appropriately understood as an attempt to remove all the disadvantages of not only competition in Market but also reciprocity in Community and redistribution in State and harmonize the advantages of them. In other words, they seek non-capitalist associational market economy that harmonize business and volunteer on the basis of the "cooperative competition (*coopetition*)" to combine cooperation and competition (Nishibe 2014, p.14). Capitalist market economy cannot be ethical so long as it is the economic system where money is freely used for means for profit-making or value augmentation of capital in quantity, not as means for exchange of something of different quality. Therefore, if a number of agents (individuals and companies) use money to make ethical investment and reciprocal exchange for production and consumption that do not take into account profit only, they would become a different kind of market economy from a capitalist one.

In the case of Banco Palmas, the key of the successful establishment of local community in Palmeiras district was that residents shared such purposes as infrastructure development, poverty eradication, and local economic growth. Precisely because there had already existed such strong cohesion in the local community, it was possible to guide the success in a short time by forming such a centralized system as "bank" that can monopolistically issue local currencies and carry out loans (credit creation). The similar case of strong cohesion can be found in rapid economic growth in Japan until the mid-1970s after WWII. The clear shared purposes like restoration from defeat and national income doubling helped family, company and neighborhood to sustain their cohesiveness of the communities. In developing countries whose situations are more or less closed to it, it would be relatively easy to form cohesive communities and the scheme of Banco Palmas would be effective.

However, as material desire gets considerably saturated in the post-industrial age of developed countries, people tend to put more value on information and services than physical goods. Because evaluation on information and services, relationship and situation vary from person to person depending on characters and personality, culture and ethics as frame of reference, such a standardized index for richness as GDP per capita no longer hold good. In this case, the setting of the common objective of the local community is not easy. When common purposes of survival and security arise at the time of economic crisis, natural disaster and war, mutual help and cooperation occur spontaneously, but such communities eventually disappear as everyday life is restored. In

short, such an idea as respect of freedom and diversity cannot provide communities with strong cohesion.

As we have seen before, Joaquim Melo, the founder of Banco Palmas expected that local production for local consumption could not last if they abolished its local currency, Palma. But, as long as there exists such reproducing structure as Banco Palmas and the neighborhood association as to keep maintaining the codes of conduct and value consciousness for local solidarity among residents in Palmeiras district, the disappearance of the local currency would not give much economic impact. However, if the income level of residents becomes much higher and they have come to need the global trade products such as automobiles and computers that are not provided by the local production, diversification of the sense of value and collapse of local community will possibly occur as in the developed countries and local solidarity may fade. Eventually, developing countries in the future will face the same sort of issues as developed countries do at present. In other words, if developed countries try to imitate the system of Banco Palmas as it is, it won't go well since developed countries must have already lost the key factor for success for the scheme. Accordingly, they must take into account the long-term economic and social trends in which they are situated and carefully conduct original practices corresponding to their own present issues.

In the developed countries where local communities have collapsed by globalization and de-industrialization, it is not easy to raise such a movement of solidarity economy as in Banco Palmas assuming the preexistence of strong communities. This is why the CCs in developed countries are strongly expected to function as not only monetary media to stimulate local economies but also linguistic media to form and activate local communities including not only real communities of geography but also virtual communities of interest. If CCs as social and cultural media can form virtual communities to share the value and norms related to specific themes such as low birthrate and aging, safety and security, natural environment, non-nuclear power and natural energy, and local production for local consumption, the movement for solidarity economy would gain more durability.

As long as communities of interest to share such value and norms are concerned, the main question is how we can mutually connect and coordinate diverse desires and wants for information and services, relationships and environments, not just for material needs for tangible goods, and lead to their coexistence and co-prosperity. The key to solve the question lies in a diversity of socioeconomic institutions, especially monetary and financial ones, because it fundamentally determines the viability of such symbiosis of a variety of interests.

Here, if we define the system where a variety of institutions can coexist as an "institutional ecosystem" (Hashimoto and Nishibe 2012), it is proved that an institutional ecosystem has a self-realization property such that if the factors of equality and diversity are incorporated in a meta-rule to evaluate each institution and determine its frequency, a diversity of institutions are eventually realized, and if the factors of convenience (efficiency) and profit-orientation are adopted in such a meta-rule that is found in globalization, it will result in dominance of a single institution like Market. In other words, as the relative frequency of the people to evaluate the conformity of economy and culture brought about by globalization, e.g., a global single currency or language, desirable in view of convenience and profit-orientation, the probability of realization of such conformity will increase. Therefore, in order to maintain a diversity of institutions, it is necessary to widely share the value and norm in *ethics of ecology* to admit that diversity itself is the unique value. How do we incorporate the point in symbiosis and solidarity? This is the most important task of movements and policies based on CCs and solidarity economy.

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