Two challenges for creating democratically accountable local currencies to cope with unvoluntary degrowth: Lessons from Argentina

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Abstract

Local currencies issued by civil society are often advocated by the degrowth movement as innovations that facilitate voluntary degrowth, but also as tools for coping with chaotic instances of unvoluntary degrowth, such as the present crisis in southern Europe. This paper provides a concise history of Argentina's barter networks, which attracted millions of participants during the economic crisis of the early 2000s, and recounts two explanations of how the barter currencies came to be largely privatized by a handful of individuals. This case is used to illustrate two challenges for the creation of democratically accountable local currencies under circumstances of widespread unvoluntary degrowth: the risk associated with the autonomist approach of not seeking state support, and the risk arising from the prioritization of deliberative democracy and community-building over economic effectiveness.

1. Introduction

The period from the early 1980s to the present has seen worldwide experimentation with local currencies at a scale unparalleled since the Great Depression of the 1930s. Local currencies issued by civil society are often advocated by the degrowth movement (Douthwaite, 2011, Kallis, 2011, Latouche, 2009: 49-50, Various authors, 2010), since they are believed to have the potential to facilitate voluntary degrowth. Several of the most common motivations for setting up and participating in local currency systems resonate with the degrowth project: community-building; making challenge to mainstream values in economic exchange; the facilitation of alternative livelihoods; and eco-localization (see North, 2010 for an overview). However, local currencies are not only seen as potential drivers of voluntary degrowth, but also as tools for coping with tumultuous instances of "unplanned degrowth within a growth regime" (Schneider et al., 2010: 511). Degrowth advocates acknowledge that the "call for degrowth is a hopeful, even a utopian discourse" (Schneider et al., 2010: 517), and are consequently aware of the strong likelihood that reductions in economic product and material throughput will unfold as uncontrolled, chaotic processes rather than intentional transitions.

Argentina's barter networks involved millions of people at the height of the country's economic crisis in the early 2000s, and are in this sense radically different from any other post-1930s local currency, all of which have had much lesser participation. The Argentine experience was first and foremost about using local currency to cope with a process of chaotic degrowth within a growth regime. This paper provides a concise history of Argentina's barter networks, and recounts two explanations of how the barter currencies came to be largely privatized by a handful of individuals. This case is used to identify two challenges for creating democratically accountable local currencies under circumstances of widespread unvoluntary degrowth.

2. The history of Argentina's barter networks

Argentina's barter currencies originated in 1995 as an informal weekly exchange gathering in a garage in a middle-class suburb of southern Buenos Aires. The garage was Carlos de Sanzo's, who run the exchange together with Horacio Covas – a fellow former socialist militant – and Rubén Ravera, co-founder with de Sanzo of the association PAR (Programa de Autosuficiencia Regional), through which they had worked on various environmentalist projects since 1989 (Gómez, 2009: 70). The exchange was intended as a practical response to the fall in incomes and reduction of meeting places suffered by the Argentine middle class as a consequence of the structural adjustment programme implemented by the government since 1990 (Gómez, 2009: 36), exacerbated by contagion from the Mexican crisis of 1994, which provoked a 20% reduction in the monetary base of Argentina in the spring of 1995 (Véganzonès and Winograd, 1997: 226). In its early stages, the *Club de Trueque* (barter club) – as the exchange came to be known – used centralized accounting akin to a LETS (usually *Local Exchange Trading System*, or *Scheme*), but this was soon abandoned for being burdensome and at odds with a wariness of centralized information, honed by the experience of brutal dictatorship (Gómez, 2009: 74). In its place, an unbacked paper currency was created, with a unit of account – the *crédito* – equivalent to the peso.

Through word-of-mouth and media coverage, the innovation expanded by replication, so that in late 1996 there were 17 barter clubs in various urban centres around the country, each now conceptualized as a node in a national network (Gómez, 2009: 89-91). Initially, new nodes issued their own particular currency and accepted those of others, but as acceptance diminished, PAR began to distribute its currency to other nodes to reduce such transaction costs. This set in motion a power struggle over the issuance of currency, temporarily resolved by the division of Metropolitan Buenos Aires into four zones, with the PAR currency confined to the southern zone (Gómez, 2009: 93).

In 1998, with participation already at 80-100.000 people (Pearson, 2003), a new organizational structure was established, with nodes represented in regional committees, and regions represented in a nation-wide Inter-Zone Coordinators' Committee (IZ). These bodies became the platform for an intensifying debate about what the trueque should be about, and PAR felt that its original economic self-help project was being turned into a long-term political project to challenge capitalism, run by a bureaucratic structure of representatives, the legitimacy of which PAR questioned (Gómez, 2009: 93-8). In October 1999, PAR challenged the IZ by introducing a 'social franchise' system to facilitate the replication of nodes, offering starter kits for sale to aspiring coordinators all across the country, including 50 PAR créditos per member at a cost of two pesos per member. This system was antithetical to the prevailing views in the IZ that no barter currency should be more than regional in scale (Powell, 2002), that the supply of currency should be managed by committees accountable to the nodes, and that the imposition of any fees in ordinary money should be prohibited (Gómez, 2009: 215, n.61).

The social franchise accelerated the pace of expansion of the trueque, so that within a year, the PAR currency went from being level with the others, to being the currency of choice in more than half of all the nodes in the country (Gómez, 2009: 99). In December 2000, PAR's dominant position was advanced further as it entered a six-month cooperation agreement with the Secretariat of Small and Medium Enterprises of the Ministry of the Economy (Primavera, 2003). This exacerbated the conflict between PAR

and the IZ, where some "wanted to do away with all relations with the state" (Primavera cit. in Gómez, 2009: 98). In April 2001, the IZ was formally disbanded, and the resulting panorama has been proximately characterized as a mix of four types of barter networks: (1) PAR's *Red Global de Trueque* (RGT; Global Barter Network); (2) *Red de Trueque Solidario* (RTS; Solidarity Barter Network), representing the IZ majority project of building a participatory, localist solidarity economy; (3) *Red de Trueque Zona Oeste* (RTZO; Western Zone Barter Network), a business-oriented network run by businessman Fernando Sampayo; and (4) a number of independent nodes, many of which were broadly sympathetic to the RTS (North, 2007: 153). Such remained the situation as the trueque reached its moment of truth after the meltdown of Argentina's economy in December 2001. The devaluation of the peso, coupled with the government's severe restrictions on access to bank accounts – known as the *corralito* – now drove millions of Argentineans to the barter nodes.

Throughout the first half of 2002, the trueque was essential to the satisfaction of basic needs for an unknowable number of people, and may well have prevented revolution or even "mass hunger leading to a war of all against all for survival" (North, 2007: 170). As the crisis continued, the spare capacity of the middle class – the largely second-hand produce that had been the basis for the trueque – was becoming exhausted, and the climate in the nodes was turning nasty (North, 2007: 164-8). By April 2002, what had been an inflationary situation now reached hyperinflation as the national supply of PAR notes exploded. PAR claimed that this was a consequence of massive counterfeiting orchestrated by the Peronist government to sabotage the RGT as it had become a threat to the party's patronage machines (Gómez, 2009: 117, North, 2005). In contrast, PAR adversaries such as RTS argued that PAR itself had caused the hyperinflation through excessive issuance motivated by the seigniorage revenues to be gained via their corrupt social franchise network (North, 2007: 156, Primavera, 2003). Either way, the hyperinflation was an essential factor contributing to the nationwide collapse of the trueque in November 2002, the final trigger of which was its denunciation as a great scam on prime time national television (North, 2005). Around this time, the trueque lost some 60-90% of participants (North, 2007: 157). Hardest hit was RGT, but general ignorance about the differences between the networks meant that all but a few isolated nodes were affected (Gómez, 2009: 119, North, 2005). Efforts have since been directed at consolidating the networks on a smaller scale (Gómez, 2009: ch.7), but the following years were characterized by gradual decline, with participation down to 120.000 by early 2007 (Gómez, 2009: 6) – still a very high figure for local currencies.

Although RGT was hardly designed for resilience – PAR probably did not keep accounts of its money supply (Gómez, 2009: 100) – it was arguably functional enough when it mattered most, and far more able to respond to urgent need than the rest. An estimation of the distribution of participants across the various networks at the beginning of 2002, based on a conservatively estimated total of 2,5 million, yields a dominant 56% for RGT, 19% for RTZO, 18% for RTS, and 7% for the independent nodes (Gómez, 2009: 114). Hyperinflation set in only one month before the government implemented a welfare transfer of 150 pesos for heads of households, a policy which has been pinpointed as a contributing factor to the decline of the trueque (Gómez, 2009: 118). Furthermore, the national scale of circulation of PAR notes, unlike the geographically more restricted currencies of its rivals, gave access to more resources (Gómez, 2009: 99, North, 2005).

3. Explanations of PAR's road to dominance, and the lessons thereof

Regardless of the particular outcome of the Argentine experience, the fact that the barter currencies were largely privatized into the hands of a few unaccountable individuals (in PAR and RTZO) should be of concern to democratically inclined individuals who expect similar instances of chaotic degrowth to present themselves in the future. There are two distinct explanations of why this happened. The first emphasizes the failure of the majority faction in the IZ to take diligent action in response to widespread economic need, thereby leaving a void to be filled by a more effective supplier of alternative currency. Gómez makes this argument, writing that with the social franchise "it was no longer necessary to have lengthy discussions and meetings to mobilize prospective members for collective action and participation" (2009: 97). Similarly, Sampayo, who used his reputation as a trustworthy businessman to run the RTZO with great efficiency but no more accountability than any ordinary enterprise (Gómez, 2009: 100, 126, North, 2007: 154), explains why he abandoned the IZ in early 2001: "There was so much to do to get people back to work, so many things we could accomplish … Many in the IZ had wonderful ideas, but they didn't seem to implement any of them. They just discussed endlessly" (Sampayo cit. in Gómez, 2009: 101). If this argument is correct, it underscores the risks associated with responses to urgent economic need that prioritize slow, consensus-based development of localist currencies rather than economic effectiveness through ease of node replication and expansion of a currency's geographic sphere of circulation, which as noted allows greater access to productive resources.

An alternative mapping of PAR's road to dominance, offered by Heloisa Primavera – an RTS leader and academic – emphasizes the importance of PAR's agreement with the Ministry of the Economy for consolidating its position: "this short period of six months was sufficient for the social franchise system to multiply exponentially, with the ostensibly unconditional support from the national government" (Primavera, 2003: 129). "The agreement granted PAR a false pretence of legitimacy. They called their voucher the dollar of the *Trueque* and it was the only one issued without accountability!" (Primavera cit. in Gómez, 2009: 113). If PAR reached its dominant position partly by using its government agreement as a promotional device, this points to the risk involved in the autonomist strategy of not seeking such support. As noted above, this autonomist strategy was advocated by a faction of the IZ that "wanted to do away with all relations with the state" (Primavera cit. in Gómez, 2009: 98).

Both explanations can be interpreted to suggest that PAR reached its position of dominance by acting to fulfill functions that no one else was fulfilling at the time. Put differently, PAR was the first to claim the position of power that was there to occupy by anyone willing and able to create an expansionist currency and approach the central state for support. This interpretation is, of course, an example of the familiar 'power-over' argument that if there is a position of power to be occupied, refraining from doing so leaves a power vacuum to be filled by someone else, from whence to dominate the former. Where does this leave local currency groups that aspire to be more democratically accountable than PAR and the RTZO, but also to avoid the economic marginalization and reputational contagion suffered by the relatively more accountable RTS and independent nodes? Here, we are leaving the realm of value-stained description and theorization for the value-drenched realm of prescription. I believe that an unaccountable currency issuer's road to dominance could be blocked by more democratic currency groups if the latter anticipate the fulfillment of the available functions. They could strive to be first in obtaining support from the central state (e.g. financial, organizational, legal, symbolic), conditional upon the preservation of an acceptable degree of democratic accountability in the design

of the currency systems. It is of course possible that the state rejects endorsing any local currency at all. But its disposition towards the sector would have to be closely observed.

Similarly, more democratic currency groups could strive to increase the sphere of circulation of their currency to improve its economic effectiveness. If done at an early stage, the risk of an adverse lock-in of currency choice, produced by network externalities, would be minimized. But to maintain strong democratic accountability in a large-scale monetary system (i.e. participation counted in the tens of thousands or more) is an enormous challenge, arguably without any successful precedent at all. Whether or not it would be worth risking the greater democracy of smaller-scale systems for the economic effectiveness of larger-scale systems would probably be a crucial point of contention. The challenge of creating democratically accountable alternative currencies appears even greater in view of the mixed record of the purportedly more democratic RTS, suggested by Powell's (2002: 625) telling observation: "To participants in the network[s], these conflicts [between RGT and RTS] are translated into minor annoyances at the level of trading. Most members do not know why, but are aware that certain notes are accepted at certain nodos while others are not." The democratic accountability of the node representatives in the IZ may also be questioned, as RGT co-founder Covas has done (Gómez, 2009: 98).

Furthermore, although more democratic currencies could perhaps be created in times of crisis, there is little reason to believe that they would be significantly more stable than the Argentinean ones. Large-scale monetary systems require vast amounts of financial and organizational resources (Lee et al., 2004), and are therefore unlikely to remain stable without strong involvement from the state. The ephemeral boom and bust of the Argentinean barter currencies at least suggests as much. Still, it is of course always worthwhile to strive for more democracy, even in the case of temporary solutions like alternative currency coping mechanisms. The Argentinean case cannot tell us anything about what would have happened if the state had not stepped back in to extend welfare support six months after the climax of the crisis, and had not in other ways helped put an end to the crisis. One could speculate that in such an unlikely scenario, some existing large corporation with the necessary capital and know-how would perhaps step in to issue alternative currency in order to reap seigniorage gains. Legal barriers and risks, such as lawsuits in the event of failure, may explain why this did not occur in Argentina nor during the present crisis.

4. Conclusion

PAR's road to dominance over Argentina's barter currencies can be explained by its introduction of an effective system for replicating RGT nodes, and its willingness to promote large-scale circulation of its currency, giving the RGT network access to more productive resources. It can also be explained by the advantage taken by PAR of its agreement with the central state. These explanations point at the risk involved in deemphasizing economic effectiveness and not seeking state support. Groups that aspire to create democratically accountable alternative currencies may be faced with the challenge of limiting these risks to avoid marginalization by less accountable actors. One way to do so would be to strive to be first to gain government endorsement, and to increase the geographic scale of circulation of their currency. But this gives rise to further challenges, namely the maintenance of democratic accountability and stability in larger-scale systems. A crucial question is whether smaller-scale, relatively democratic systems could be economically effective enough to outcompete unaccountable, large-scale

alternatives. In Argentina, they were not.

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