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The Rise of Alternative Currencies in Post-Capitalism

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During this decade we have witnessed the introduction or scaling of several forms of alternative currencies. The Alternative Currency Database includes more than 300 local alternative paper currencies. Cryptocurrencies such as Bitcoin represent non-government backed digital currencies that have grown substantially through the underlying blockchain technology. Timebanking is another form of alternative currency where more than four million hours of time have been exchanged for future time from network members around the globe.

I believe we are on the cusp of a transformation in how value is captured and exchanged in society. Much of this change is driven by a grassroots, and technologically-empowered movement, to confront the ills perceived to be powered and exacerbated by market-based capitalism, such as climate change and income inequality. I will argue that alternative currencies discourage passive investment, and therefore serve as a powerful alternative to market-based capitalism.

Throughout this essay, I refer to 'traditional currencies' as strong currencies and alternative currencies as 'weak currencies'. Strong currencies allow for, and frequently incorporate incentives for investors, speculators, financiers and others to hoard or leverage money for economic gain, whereas weak currencies are those with no inherent incentive in accumulating the currency, and in fact, may have built-in disincentives to do so. Before describing each of the three forms of alternative currencies of interest in this essay (local paper currency, timebanking and cryptocurrency) it is worth briefly reviewing current thinking about alternative currencies.

POSITIONING ALTERNATIVE CURRENCIES AS A POST-CAPITALIST RESPONSE TO STRONG CURRENCIES

While management scholars have largely been blinded by the emergence of alternative currencies, scholars in many other fields have explored alternative currencies from

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multiple perspectives. Currencies are a mechanism for enabling an exchange between parties. Whereas traditional currencies are backed by nation states, alternative currencies are not. Political scientists have been exploring local currencies as a challenge to the legitimacy of nation states for decades (e.g., Williams, 1996). The resistance to the power of the state, expressed as growth in alternative, non-government backed currencies, contributes to the positioning of alternative currencies as a response to perceived failures of capitalism and the nation states that continue to support market-based capitalism.

Similarly, economists have long viewed the birth of alternative currencies as a grassroots movement against capitalism, free-trade and globalization. In this sense, one could view alternative currencies as a manifestation of a social movement, a resistance against perceived ills brought by free trade, nation building and more recently, the increasing automation of work (often referred to as industry 4.0 or the fourth industrial revolution) which is leading to a sizable increase in freelancing and the 'on-demand economy'. While much of the growth in freelancing is driven by capitalist tendencies of corporations to increase efficiencies and drive down costs there is also a growing interest in freelance and independent forms of work particularly amongst the millennial generation (Cohen, 2016). The growth in freelancing opens up avenues for the application of alternative currencies, particularly timebanking, whereby peers connected by platforms can exchange expertise without exchanging cash.

ALTERNATIVE CURRENCIES, WEAK CURRENCIES AND RELEVANCE TO MANAGEMENT

So why do I view the weak nature of most alternative currencies to be a positive transformational condition for alternative currencies? As corporations continue to eliminate jobs due to efficiency gains and automation, many corporations and their shareholders are getting richer while much of the population is getting poorer. Alternative currencies being weak currencies mitigate wealth accumulation in the hands of a few and empower participants to benefit more directly from their contributions to the exchange system. The growing evidence suggests that market-based capitalism is adequate to good at supporting returns to passive investors. Venture capitalist and investors in publicly traded corporations have witnessed gains in recent decades, meanwhile employees of those companies, and society at large have failed to experience the same benefits. While the United Stated is in an economic recovery from the great recession, underemployment and income inequality continue to grow. The short-term profit maximization encouraged by investors in the stock market, and the quick path to exits for start-ups targeted by venture capitalists have yielded wealth accumulation in the hands of a few, yet resulted in little benefit to society as a whole.

Proponents of a post-capitalist movement leverage the evidence of growing income inequalities and the shift of capital and wealth to the financial markets to suggest that we are witnessing the decline of capitalism due to what historian Ferdinand Braudel (1992) referred to as the financial autumn theory. When citizens, makers and producers of value in society share less in the economic benefits of their activity, while the financial players reap growing percentages of such economic activity, Braudel suggests this to be a signal that the prevailing economic model has reached its maturity.

Alternative currencies yield business models that penalize hoarding and returns on investment, and instead focus on velocity of community-based transactions amongst peers and local businesses. Passive investors in the alternative currencies arena, therefore have little to gain. Where alternative currencies are weak and the orientation is on high velocity transactions, the active participants of the transactions will benefit more than passive investors. This is what positions alternative currencies as a direct reaction of the masses to the 'financialization' of the markets. Financialization occurs when lenders, financiers and investment bankers increasingly profit from citizens and consumers, through student loans, car loans, mortgages, credit cards and several other financial instruments. Forbes (Collins, 2015) defined financialization as 'the growing scale and profitability of the finance sector at the expense of the rest of the economy and the shrinking regulation of its rules and returns', highlighting that between 1970 and 2010, the finance industry doubled its share of GDP from 10 per cent to 20 per cent.

Alternative currencies being weak currencies pose the potential to serve as tools for facilitating more direct exchange of value between peers and local businesses, at the same time, give little opportunity for the financialization we have witnessed in recent decades in market-based economies.

Furthermore, the role of weak alternative currencies in transforming the relationship between founders, users, employees and investors amongst start-ups is a fascinating one. I would even argue that if we see a meaningful shift towards post-capitalist models, we will see the death of venture capital as we currently view it. As it is, we have collectively overhyped the importance of venture capital given its very small contribution to the global economy and the miniscule percentage of start-ups that receive venture capital. For example, a recent study by the Kaufman Foundation found that less than five percent of start-up funding in the United States comes from venture capital sources and only 6.5 per cent of high growth start-ups had received venture capital.

I will briefly explore this concept in the context of each of the three alternative currencies that are the subject of this essay.

LOCAL PAPER CURRENCIES

In some form or another local currencies have been around for centuries, and of course pre-date modern, treasury-backed currencies at the national level. But since the widespread adoption of national currencies, local alternative currencies have had a place in societies around the globe. They have been commonly implemented in a grassroots fashion as a response to economic shocks, such as in Argentina after the economic crisis around the start of the twenty-first century. More recently, Spain for example, witnessed the introduction of a dozen local currencies following the 2008 crisis and, similarly, as the Wall Street Journal reported in 2015, Greece has experienced a big boost in the alternative currency movement. Perhaps surprisingly, local paper currencies are also flourishing in more than 50 communities throughout the United States.

BerkShares, founded in 2006 in Berkshire, Massachusetts, are actually acquired by exchanging U.S. dollars for this local currency, which then must remain in the community. More than 400 local businesses in the community accept BerkShares for payment. The goal of BerkShares is to 'maximize the circulation of goods, services, and capital within the region… and to distinguish the local businesses that accept the currency from those that do not'.[1]

While each local currency operates differently, these initiatives all seek to support local communities over foreign companies and investors. Local physical currencies are the epitome of weak currencies as they are virtually impossible to accumulate at any large scale that would give any single holder monopolistic rights. In fact it would be useless to achieve such a position because local currencies are only valuable with a local, active exchange system. Therefore, I have uncovered no examples of private passive investors in local paper currencies, suggesting that this form of currency does not enable the same dispersion between corporate and investor gains without social gains. To further reduce such a risk, many local currency systems implement a negative interest rate mechanism that serves to significantly disincent their hoarding.

TIMEBANKING

The concept behind timebanking is that instead of delivering a service in return for monetary reward, a member of a timebanking community can offer service to another member and then receive time credit to be utilized within the same timebanking community, but by any other member. The recipient of the original service is not obligated to deliver a service in return to the same member, but, instead, becomes indebted to the community and will owe an equivalent amount of time to another member. It is virtually impossible to accumulate time credit to a point where any individual in the community can exert monopoly power over the community. Thus timebanking is clearly a weak currency.

Historically timebanking has been a very localized phenomenon relying on locally provided services to other members living in close proximity. Yet new social networking and video technologies allows for timebanking to potentially scale regionally or even globally. Brazil-based Bliive, for example, has facilitated the sharing of more than 100,000 hours of expertise in return for time credit through an online platform which connects primarily local timebankers to exchange value and expertise. Although in the case of Bliiive, their technology still primarily facilitates local interactions.

My wife, currently enrolled in an Executive MBA program at EADA Business school is leading the development of a platform called the Professional Knowledge Exchange (PKX). This is one of the first timebanking initiatives I have discovered which hopes to leverage technology to connect global professionals. Instead of manual labour or local professional services, PKX aims to connect engineers, doctors, executives and other professionals in a global peer-to-peer network. A paediatrician based in Venezuela could seek expertise from a paediatrician in Brazil regarding most effective treatments of the Zika virus. Or an entrepreneur in Santiago, Chile seeking to launch an electric vehicle car sharing service could use PKX to find an expert from Paris who helped implement their Autolib́service. PKX plans to offer a hybrid model whereby users can choose to timebank or pay per hour of expertise sought.

CRYPTOCURRENCIES

The first known experiments with cryptocurrencies occurred in the Netherlands in the mid-1980s. Yet, cryptocurrencies took off as something of note with the introduction of

Bitcoin in 2008. The brainchild of a mysterious and as of yet unidentified person or group of persons, with the pseudonym, Satashio Nakamoto, Bitcoin emerged as a global, digital currency not controlled or supported by any government, i.e. a borderless, digital, alternative currency. Bitcoin is intended to be an anonymous digital currency that allows for transactions between individual without intermediaries. If I own bitcoins and want to buy your computer with bitcoins, we can agree on the value of the computer and I can transfer the Bitcoin equivalent value to you immediately. Thanks to the underlying blockchain technology I will discuss shortly, this transaction is instantaneous and recorded for eternity within the Bitcoin network.

Bitcoin is not as weak of a currency as the others described in this essay as it is possible for an individual or group of individuals to accumulate bitcoins or even engage in currency speculation. The Bitcoin protocol has established that there will never be more than 21 million total bitcoins in circulation. The fact that there is a maximum limit could eventually incent investors and speculators to hoard bitcoins in the hopes that hoarding bitcoins could lead to a shortage and drive up their value.

As such Bitcoin may appear to be out of context in an essay about alternative currencies as a post capitalist response. In fact, Bitcoin has had some big successes in the start-up community with more than $1 billion (USD) venture capital invested in Bitcoin start-ups since 2012 and $690 million in 2015 alone[2]. Bitcoin has also gained some traction in terms of owners of bitcoin currency being able to engage in online and physical transactions around the globe. Recently some companies have begun to introduce Bitcoin ATMs as well.

Yet, Bitcoin did emerge as part of the 99 per cent movement and the frustration with banks too big to fail and failures of federal governments to implement policies which yield prosperity for all income classes. It is possible that Bitcoin may end up being just another form of market-based capitalism. What is perhaps more intriguing about Bitcoin and its role in facilitating a shift towards post capitalism, is its underlying technology known as blockchain. Blockchain is a distributed ledger technology that simultaneously records every Bitcoin transaction with every node or computer on the system around the globe. Industry experts, such as Goldman Sachs suggest that blockchain tech could eventually be worth tens of billions of dollars in finance, insurance and related industries. Of course this insight from Goldman Sachs does not inspire interest in post-capitalism as it may just help increase the profits of those already engaged in financialization while also contribute to more automation and job losses. However, beyond its impact on mainstream industries operating with market-based capitalistic models, blockchain, and similar derivatives like ethereum, pose significant opportunities for radically new forms of post-capitalist organizing, which I will discuss at the end of this essay.

The Evolution of Alternative Currencies and Peer-to-Peer Economies

Throughout this essay I have suggested that the post-capitalist movement seeks to leverage technology to facilitate connecting peers (and local businesses) in the hopes of more equitable distribution of income for makers and creators. The sharing economy broadly seeks to facilitate such peer-to-peer transactions (P2P) usually with an intermediary who owns the underlying technology. It may be enlightening to explore one of the highest profile examples of market spaces in this emerging distributed arena and the vast implications for management that emerge. Uber, a global powerhouse of the technologically-enabled taxi service, raised a recent funding round based on a valuation of $62.5 billion making Uber more valuable than General Motors and any other tech company based in Silicon Valley. Yet, Uber has had well publicized problems with regulators around the globe in part due to incumbent resistance (i.e., mainstream taxi fleets), concerns regarding Uber's bypassing taxi regulations for safety of drivers and passengers, and of course concerns about the low income and lack of benefits afforded to drivers. Uber's success to some extent can be attributed to the lack of innovation from taxi operators around the globe. Uber met a latent need for a location-based, highly technologically-enabled transportation service.

Initiatives to create what some refer to as a platform coop, such as those of 645 taxi drivers in Denver, Colorado who came together to offer the same innovative service as Uber but without a global platform owner dictating the terms, certainly challenge the dominance of intermediaries like Uber, resulting in more equitable value capture. Yet platform cooperatives are really just an alternative form of governance operating within and competing amongst capitalist enterprises.

The Blockchain and Distributed Autonomous Organizations

However, there is another potential response to Uber, driven by blockchain technology which could truly be disruptive and provides insights as to where this space could go. What if technology could facilitate transactions between two parties without the need for an intermediary that may be inclined to take extractive approaches such as those by Uber and Airbnb? Could you design a system with open source software that is developed by the community which facilitates direct transactions between peers without anyone taking a cut? Instead of cooperatives where members share in the ownership of the enterprise, a DAO actually has no owners and no profit share. In theory, 100 per cent of the income from transactions in a DAO can flow to the provider of services with no intermediary taking their cut.

The transactions in a DAO could take the form of local currency, digital currency, national currency or a combination. While there is no taxi DAO formed yet, there is certainly talk of them as an alternative, post-capitalist solution to Uber. Other DAOs have been formed recently, such as openbazaar, which seeks to essentially offer the same type of service as eBay, i.e., an online classified ads platform, without a middleman or cooperative ownership. So you could offer to sell that computer I discussed earlier but this time via openbazaar and we could agree on a price and I would pay you directly for it without anyone like eBay taking a percentage of the transaction. In this way DAOs are technology-enabled post-capitalist platforms for peer to peer exchange without intermediaries.

DISCUSSION AND IMPLICATIONS FOR MANAGEMENT

As can be seen from the taxi story, there are several emerging themes in the transition towards post-capitalism and alternative currencies that should be intriguing to management scholars. Some of these include: how do industry incumbents react to threats from post-capitalist models like DAOs (for example if a DAO challenger emerged to Uber, how would it respond?); emerging business models which are hybrids between market-based and post-capitalist approaches; and DAOs as an organizational form that is antithesis to private ownership models.

But when a business model is leveraging weak currencies, the incentive to accumulate wealth through the maximum expropriation of value of transactions dissipates. This suggests any returns would too. The DAO gives us a potential glimpse into the future, as does the growing insights gleaned from the increased use of P2P crowdfunding platforms. The post-capitalism movement seems destined to raise many issues regarding the shift towards hyper-local production, local cooperatives and further challenge our perception of the importance of nation states. As Benjamin Barber detailed in his book, 'If Mayors Ruled the World', despite our continued attempts to globalize, it seems that real progress on many social and environmental goals is occurring at the local level and not the multilateral levels such as the United Nations or even the European Union.

Therefore, post-capitalism, and alternative currencies expressed as a manifestation of the 99 per cent movement, suggest a need for revising, or perhaps, discovering new theoretical frameworks for understanding why entrepreneurs do what they do and with what consequences. In a post-capitalist future, 'start-ups' may be funded by the collective, have no profit motive, transact in alternative currencies, and only exist to enable peer to peer transactions whereby all value from the transaction will be attained by the peer providing the value.

I find it ironic for me personally that my early scholarship, including the focus of my Ph.D. dissertation, was on the factors that influence the valuation of high-growth tech start-ups when they issue an initial public offering (IPO) and now I am exploring how the drive for exits of start-ups and short-term profits of publicly traded companies has led to mass discontent and is driving the emergence of a new economic model, utilizing alternative currencies, in response to the perceived ills generated by IPOs and investors in publicly traded companies. Yet, I am finding it increasingly difficult to overlook the growing inequities being driven by the short-termism we find in market-based capitalism while also gaining some excitement for a future where those who actually create value in a peer-to-peer economy share more equally in the fruits of their contributions with the help of technology-enabled P2P platforms and a growing array of alternative currencies. In September of 2016, Paris announced it had already initiated a planning process to launch its own alternative, local currency. If the currency, the Seine, indeed is launched, Paris would be the largest territory and the first capital city to officially launch and support the rollout of an alternative local currency and perhaps be indicative that this movement may just be getting started. If money is indeed 'a link between the present and the future' as Keynes once said, perhaps the growing use of alternative currencies is an indicator of things to come.

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NOTES

[1] http://berkshares.org/what_are_berkshares
[2] http://www.coindesk.com/bitcoin-venture-capital/

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