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## **Current Issues (Zeit-Fragen)**

*Article 1: Topical Questions #30, 9. Aug. 2004*

### **Alternatives to Globalization**

#### **Cooperative Principle and Complementary Currency**

*By Dr. W. Wüthrich*

*On Oct. 16, 1934, a cooperative organization was founded which in its nature and development has by now become something unique in Switzerland and in the world at large: the WIR Economic Circle Cooperative (Wirtschaftsring-Genossenschaft), which recently changed its name to the WIR Bank.*

We read in its statutes: "The WIR Cooperative is a self-help organization made up of trading, manufacturing, and service-providing companies. Its purpose is to encourage participating members to put their buying power at each other's disposal and keep it circulating within their ranks, thereby providing members with additional sales volume." (1)

#### **Basic Concept**

The WIR Cooperative is a society that uses a complementary currency system. It creates its own money (as does the Swiss National Bank), which serves as a means of payment among the members and with which the cooperative grants loans. The value of the WIR is pegged to the Swiss Franc (1 WIR = 1 SFr). A main feature is that the money itself is interest-free. No interest is paid on account balances. This feature functions as a stimulus to spend account balances quickly, thereby generating increased sales among the members. In the early years not only was no interest paid on account balances, but a "storage" or demurrage fee was charged. This fee was to further stimulate rapid circulation of the money.

#### **A Practical Example**

The credit committee of the WIR Cooperative grants a mortgage loan of 100,000 WIR francs against standard collateral security. It does not, however, lend out account holders' money as do other banks, but creates the money itself -- nowadays with a mouse-click on the computer. In contrast to the National Bank's operation, the money comes into being not through state authorization, but on the strength of a contract with the borrower, plus the willingness of a community to accept the money. For example, the borrower uses the new money to build a house. She pays a contractor whom she knows to be a member of the cooperative. This contractor uses the money to buy building materials from other members, and so on. Invoices are generally paid

approximately 30-40% in WIR, the rest in Swiss francs -- because the member firms pay their employees in francs, and because many other costs arise that can't be met with WIR, such as taxes. -- The mortgage credit issued in new money thus facilitates business for many years among the members, until the loan is finally repaid.

The "interest rate" attached to such loans [and payable in SFr? -- PB] is nowadays set at just 1%. This rate is comparable to the interest margin (2) of commercial banks, and over the long term averages about one-third of normal bank interest. It suffices to cover the WIR Bank's expenses and provide adequate reserves. The cooperative also provides members various forms of assistance in selling their goods and services: a roster of participating members, publications, brochures, trade fairs, special delivery services, and much more. Regional WIR groups also organize conferences focusing on political and cultural issues.

The system demands that members project carefully their need for WIR francs. Swiss francs can be exchanged for WIR francs at any time; WIR francs, on the other hand, can only be spent for goods and services offered by other members, or used to repay loans. Reverse trade of WIR francs for SFr is not allowed.

### **Complementary Currency System**

In the parlance of monetary theory, WIR is a "complementary currency". The term is understood to mean an agreement within a community to accept as a medium of exchange a currency different from the national currency. It does not replace the latter, but rather exercises a social function for which the national currency was not intended. In the case of WIR, the members support each other mutually both by buying from one another and by gaining access to loans offered by the central office at more favorable rates than anywhere else. This access is especially valuable in times of economic recession or rising interest rates. The goal is to create prosperity and prevent unemployment.

Since 1936, the WIR Cooperative has enjoyed the status of a bank and is subject to the controls of the Swiss Confederate Bank Commission. Banking law prescribes a certain obligatory relationship between a bank's assets [including outstanding loans] and its equity; thus the volume of available credit is limited. WIR-money is commodity-backed, in the sense that every transaction in WIR is backed by the exchange of concrete goods and services.

### **Founding of the WIR Cooperative and similar organizations**

The WIR Cooperative was founded as a self-help organization in 1934 by Werner Zimmermann and Paul Enz, both adherents of the "free-money" theory of Silvio Gesell. Small and medium-sized businesses were especially hard hit at that time by the depression following the stock market crash of 1929. Sales had receded massively, and many employees had lost their jobs. There were no signs of a recovery. From the perspective of the "free economy" theory [of Gesell et al], the cause of this disaster lay in the insufficient supply of money by the responsible agencies and in the distorted circulation of money thanks to hoarding -- itself caused by the many bank failures. In Europe alone, well over a thousand banks had failed, including the largest bank in Austria. Many citizens had lost their faith in the banking industry and preferred to store their money at home. It is estimated that in Switzerland around 20% of the bank notes in circulation were hoarded outside the banking system and thus removed from economic circulation. In other countries the percentage was probably much higher.

The new self-help organization was intended to provide a remedy. It started with 16 members and an initial capital of SFr 42,000. The name "WIR", an abbreviation for "Wirtschaftsring-Genossenschaft" ["Economic Circle Cooperative"], was defined by Werner Zimmermann also as the opposite pole from "ICH" [= "I/ME"]. In a cooperative, he was convinced, the interests of each individual could be better protected. The WIR-founders were not alone at the time. All around the globe similar organizations were springing up. Whole towns and associations of people of the most diverse types were seeking effective remedies to the crippling mood of the great depression, using tools like non-cash barter circles and self-created money. These groups followed the same general approach:

1. As a stopgap to replace the missing national currency, they created complementary currencies which functioned within an overseeable framework.
2. They equipped the new medium of exchange with a stimulus to spend it quickly, rather than holding on to it. Thus as a rule, not only was no interest paid on accounts, but on the contrary, a "storage fee", a kind of negative interest, was charged. This was to counteract people's tendency to hang onto their money for fear of the future. In this way, the familiar "blocked thought and action" syndrome -- perceived by psychologists even in the group pathology of the depression -- was to be broken through and the circulation of money assured.

### **Similar Organizations Abroad**

Such self-help associations were especially widespread in the US, where unemployment at times reached 25% (as compared to 10% in Switzerland). They were civil society's answer to the grinding problems of everyday life. Moreover, in the US complementary currencies had already established a long tradition.

In Germany the runaway inflation of the 20's had led to the founding of home-grown currency systems by many communities. In 1929, roughly at the same time the world economic crisis began, the "Wära" barter company was founded. It saw itself as a private association dedicated to eradicating sales blockages and unemployment. In Austria the town of Wörgl near Innsbruck, with its 5,000 inhabitants, drew widespread attention. In the little town and its environs, over 1,500 people were out of work. So the mayor financed urgent communal projects with "work value certificates". This community money, 100% backed by national currency [the central government's annual welfare stipend to the town], could be used in Wörgl to buy goods and services -- but unlike with conventional money, anyone possessing such local notes had to pay a 1% charge at the end of each month to maintain their face value. [Payment of this fee was evidenced by affixing a small stamp to the respective month's quadrant on the back of the bill.] This fee could only be avoided by spending the money again before the end of the month. The holder thus was taxed not only for commerce in goods [as with a sales tax], but for the "non-spending" of money. It was possible to redeem the money in national currency, but at the price of a 2% exchange fee.

Participation in this experiment by the populace was entirely voluntary. The people, though, were convinced of the efficacy of these measures, and readily accepted the new means of payment. Circulation of money increased steadily, unemployment sank within a year by 25%, and the municipality's financial situation improved markedly. The additional income was made available for urgent social needs. And the recognition was soon established that a complementary, overseeable payment system within a local or regional community assures the circulation of money,

reduces unemployment, and reinforces community bonds. Other municipalities in Austria and elsewhere (e.g. Triesen, Liechtenstein) followed Wörgl's well-documented example. Both domestically and internationally, it soon became famous in political and academic circles. The then most influential economist in the world, John Maynard Keynes, judged Wörgl favorably. The French Prime Minister Daladier was one of many leading politicians to visit Wörgl.

### **Self-Help Initiatives Strangled**

But the central bureaucracies viewed these widespread self-help organizations and their emergency currencies with suspicion. In Germany and Austria they were declared illegal even before the power seizure by Hitler with the justification that only the national bank has the right to issue monetary tokens. In the political debate the Wörgl experiment was first branded as "mischief", then as a communist plot, and after the war as a fascist scheme.

Similar developments occurred in the US, where complementary currencies enjoyed the widest adoption and the longest tradition. Franklin Delano Roosevelt took office as president in 1933. In his inaugural address he announced a program that would go down in history as the "New Deal". The economic depression and the high unemployment rate were to be tackled by the federal government. Jobs were to be created through banking assistance measures and numerous large-scale, centrally-run labor creation programs financed by government debt. Simultaneously Roosevelt announced that by presidential decree, all the multitudinous self-help "emergency currencies" would be abolished. (4)

Was Roosevelt successful with his New Deal? Without a doubt, the employment creation programs were better than nothing. They allowed hard-working people to contribute to many worthwhile projects. But most economic historians agree that the specter of the depression was banned both in Germany and in the US only through the shift to a war economy. In retrospect one may well ask whether the pathways opened by civil society during the Great Depression couldn't have improved on the state measures in a sustainable way. Today such considerations are no less pertinent when we observe expensive government programs showing poor or no results.

In Switzerland a legal difference was established between private and public-domain organizations. The WIR Cooperative was approved as a private organization. It was placed under bank law jurisdiction in 1936. On the other hand, applications by municipal authorities such as the cities Biel and Brienz for permission to launch experiments similar to Wörgl's were turned down, based on the assertion of the Swiss National Bank's monopoly on the issuance of bank notes.

### **WIR: the Only Complementary Currency System to Survive**

In Scandinavia many self-help organizations with their complementary currencies were able to survive up to the time of the Second World War. But then they were all dissolved, sometimes owing to internal problems and sometimes to the wartime turmoil. The WIR Cooperative in Switzerland also experienced difficulties. But after the war it made a new start, and in the postwar boom period its membership rolls grew rapidly. This demonstrates that the basic complementary currency idea is advantageous not only in times of economic crisis. The demurrage feature that burdened accounts with a storage fee was done away with. Such a strong stimulus for spending money rapidly would have been inappropriate to the fast-moving business climate of those years. But the interest-free feature was maintained, and has remained constant to this day: WIR accounts earn no interest.

## **Turbulent History**

Today the WIR Cooperative looks back on a long developmental history. From the mid-1960's into the '70's it underwent a serious crisis. Certain members took advantage of the WIR system to unload low-quality products at inflated prices. Also, WIR money was offered for sale in newspaper ads at a discount of 30%. The Cooperative was in danger of losing its reliable reputation, thus threatened with failure. Rigorous countermeasures were necessary. Market trading of WIR accounts was forbidden by the Co-op. Even today, every year a few members violate the statutes; their memberships are revoked. Redoubled attention to the self-help premise and group solidarity of the organization have led it back to successful ways.

The WIR Cooperative now numbers over 62,000 members, who amongst themselves create transactions worth approximately SFr 1.65 billion [!] annually. Considering that payments on average are made only from 30-40% in WIR and the remainder in Swiss francs, the total value of goods and services traded in the Cooperative more than doubles that amount. Business and mortgage loans granted in WIR-francs amount to about 800 million annually.

The WIR Cooperative thus demonstrates the potential and the flexibility of a fully matured complementary currency system in today's world. As noted by the director of the Swiss Bank Union in Basel on the occasion of WIR's 50-year anniversary in 1984, "WIR has grown from a crisis-based self-help organization into a financially healthy, tightly organized, competently led institution of the small and medium-sized business sector. It complements the activities of the banks and is not in competition with them."

That absence of competition with the banks changed a few years ago, however. In 1998 the Cooperative changed its name to the "WIR Bank". It started offering its members attractive Swiss Franc interest rates on certain savings accounts, but without reducing its WIR-based activities. In 2000 the WIR Bank opened its doors to the general public and introduced "electronic banking".

## **The WIR Bank**

Currently members and non-members alike can carry out their banking activities in Swiss francs with the WIR Bank. Visitors to the central office in Basel enter a modern building of steel, glass, and concrete that gives nothing away to conventional bank facilities. Swiss francs savings accounts, business accounts, and certificate of deposit programs are among the services offered, as well as home mortgages and business credit in Swiss francs, in WIR, or a combination. The loan volume in WIR approximately equals that in Swiss francs.

The WIR Bank is firmly anchored in the world of small and medium-sized businesses, taking its place in the variegated network of self-help instruments available to businesspeople in Switzerland. Among the latter are a broad range of cooperatives, and numerous professional and trade associations.

## **Impressive Developmental History**

Over the last several years the WIR Bank has maintained its reputation as a small "niche" player very effectively. Swiss-franc-denominated customer accounts have doubled in the past year alone, now totaling over SFr 1 billion. The number of customers not participating in the WIR-denominated system now totals around 15,000. When consumer organizations compare its performance to that of other banks, the WIR Bank regularly receives the top rating. For example, on private "rainy day" savings accounts it pays interest of 2.75% -- nearly twice as much as other banks (cp. K-Tipp of Jan. 14, 2004).

This performance is not surprising in view of the unusually lean, efficient operational structure of the WIR Bank. Doing business throughout Switzerland and with an operating balance of 2.38 billion francs, it maintains only seven branch offices in addition to its central office in Basel, with a total of about 200 employees. Thus it can afford to offer the most attractive loan terms in the business. It is also well prepared for the 21<sup>st</sup> century with its growing emphasis on electronic banking. The bank handles its relationships with new customers, whose numbers have tripled over the past year, "cooperatively", i.e. by means of small-group workshops which serve not only for the dissemination of information and advice, but for discussion of personal experiences and the collaborative development of overarching, long-term solutions to long-term problems.

### **Future Prospects**

On May 25, 2004, the General Assembly of the WIR Bank raised its capital from SFr 10,000,000 to SFR 14,400,000, and broadened its capital-stakeholder base. Now not only WIR-trading participants, but all customer groups can purchase cooperative shares and thus share in the bank's financial success. In this way the integration of a complementary currency system into a normal bank has been completed. The emergency self-help organization of 1934 has metamorphosed 70 years later into a commercial bank based on cooperative principles and retaining its unique WIR cultural identity. Its ambitious goal is to become a nationwide bank for the business middle class. However, the WIR Bank does not intend to become a "universal" bank (5). In the words of its director, Karl Baumgartner, it shall expand its operations "with due deliberation."

The bank's main strength is the provision of low-interest credit in WIR, in SFr, or in combination. The bank's WIR-based business gained somewhat in the first quarter of 2004, after declining slightly over the past few years owing to the stressed business climate. Thus the "free money" experiment, often branded a failure in past years, appears to have a future. In the financial world the WIR Bank may well be the only commercial bank anywhere that, like a national reserve bank, creates its own money for lending and spending.

Best wishes to the WIR pioneers for continued success!

### **Endnotes**

- (1) The following observations are based on the business reports of the WIR Bank, the proceedings of the 50-year anniversary meeting of the WIR Cooperative in 1984, and other historical sources.
- (2) Interest margin: the difference between the interest a bank pays on deposits and the interest it charges for loans.
- (3) See Fritz Schwarz, *Das Experiment von Wörgl*, Bern 1983.

- (4) Bernard Lietaer, *Das Geld der Zukunft* [*The Future of Money*], Riemann 2002, p. 274.
- (5) A "universal" bank is one that offers a complete palette of banking services.