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Greensboro Office
100 S. Elm St., Suite 400
Greensboro, NC 27401
Phone: (336) 271-6539
Toll-free: (800) 723-2977
News fax: (336) 370-2899
Advertising fax: (336) 370-2900
General fax: (336) 574-3607
Winston-Salem Office
305 W. Fourth St. Suite 2B
Winston-Salem, NC 27101
Phone: (336) 725-1163
Fax: (336) 725-1154
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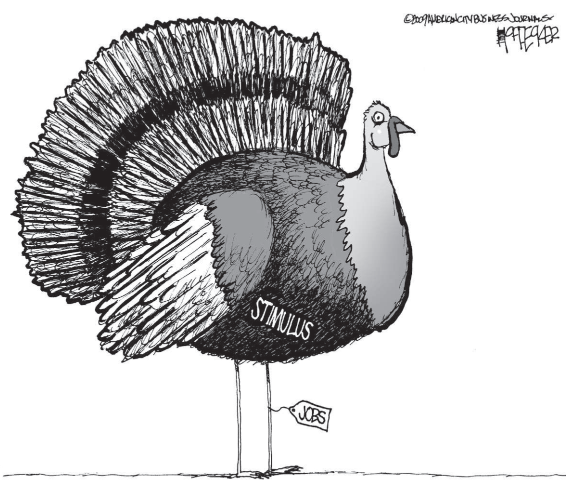

Greenbucks in Greensboro? An odd idea with some merit

VIEWPOINT
ANDREW BROD

Buying local has long been a goal of those who pay attention to the environmental impact of their shopping decisions. During the Great Recession, the buy-local concept had been adopted by chambers of commerce hoping to reinvigorate sagging local economies by keeping more spending at home.

A local group, the Greensboro Currency Project, is proposing something similar: the establishment of an alternative local currency. Under the plan, scrip would be circulated in the community, good for purchases from participating local merchants or for trades between individuals. The scrip could be used instead of or in combination with dollars, with a set exchange rate between the two.

The GCP hasn't settled on a name for its currency, but one of the names it's tossing around is the Greenbuck. Let's go with that for now. Greenbucks could be purchased with dollars, or, depending on how the program is set up, acquired in exchange for performing various community services. Greenbucks couldn't be spent at Wal-Mart, McDonald's or other national chains.

Alternative currencies are perfectly legal in the U.S., and they have a long history here and elsewhere. Prior to the establishment of the Federal Reserve System in 1913, local currencies augmented poorly backed federal notes. In the 1930s, when economic crisis and severe price deflation struck economies around the world, local currencies made it possible for people to continue to do business with their neighbors.

In recent years, various communities in the U.S. have created local currencies, including upstate New York's Ithaca Hours and western Massachusetts' Berkshares. Down the road in North Carolina, one can find the Pittsboro Plenty.

Of course the big question is why do this. Supporters of local currencies talk about the economic benefits, but those are probably limited. After all, if people want to buy from local merchants, there's nothing to stop them from doing that with dollars.

More importantly, it's not clear that buying local is actually all that great. Or rather, it's not so great when Winston-Salem and High Point start doing the same thing. If all cities turned themselves into economic silos, we'd all be poorer for it. Fortunately, the reality isn't so dire, as buy-local campaigns and local currencies are unlikely to do more than nibble at the edges of consumers' buying habits.

Another economic claim is that while dollars are scarce, a local currency would be plentiful. That might be true to a point, but the currency's convertibility into dollars restricts how generously it can be circulated.

What then is the primary benefit of a local currency? The answer is revealed in the simpler world envisioned by supporters, in which artisans and laborers make exchanges without intermediaries. A Greenbucks program would be more about building community than transforming the economy of Greensboro. It'd be more about social capital than financial capital.

This is reflected in the sparse academic literature on local currencies, most of which is not in economics journals. Researchers have found that local currencies can strengthen social networks, enhance levels of trust, bring marginalized people into more meaningful contact with others, and assign worth to services not easily valued in dollars.

A Greenbucks program could be coordinated with other programs, for example, to provide earning opportunities for the homeless.

The Greenbuck would be no economic panacea, but it seems harmless enough. And with enough buy-in from merchants and consumers, it could help create a more humane and connected community. Sometimes goofy ideas like this can work.

ANDREW BROD *is the director of UNCG's Center for Business and Economic Research and a member of The Business Journal's Editorial Board of Contributors. Reach him at (336)334-4867 or Andrew-Brod@uncg.edu. An archive of his columns is available at http://cber.uncg.edu.*

Can the U.S. work to trim its China fix?

VIEWPOINT
CHARLES KENNEDY

When the floating exchange rate system emerged in the 1970s, it was sanctioned by the International Monetary Fund in 1976, and member states committed themselves to avoid "dirty floating" or competitive devaluations reminiscent of the 1930. Dirty floating occurs when one country sells its currency in foreign exchange rate markets in an attempt to gain trade advantages.

With fixed rate or pegged foreign exchange rate systems, the typical problem is usually associated with government economic policies that causes the local currency to become overvalued, leading to declining exports and capital flight. In China's case, however, the problem is exactly the reverse.

By selling local currency for U.S. dollars in the exchange rate market, Beijing's leaders are able to keep the Chinese currency, the renminbi, undervalued, thus spurring Chinese exports to world markets.

A large trade surplus then generates even more U.S. dollars and foreign exchange reserves held by the Chinese government. Interestingly, after allowing the renminbi to gradually appreciate relative the U.S. dollar since 2005, the central bank and monetary authorities in China reversed course since the financial crisis exploded in the United States during the fall of 2008 and have kept the value to the renminbi constant, considerably helping Chinese exporters.

Such policies amount to dirty fixing of the Chinese currency.

One may wonder why the United States does not more aggressively challenge Chinese foreign exchange rate policies. Secretary of the Treasury Timothy Geithner did testify during his confirmation hearing that he believed China was unfairly manipulating its currency's value. But when the Treasury Department's annual report to Congress on exchange rate policies of major trading partners was released this spring, it failed to name China as a currency manipulator.

Perhaps most telling, during President Obama's recent trip to China, the subject of China's exchange rate policies was hardly mentioned.

The reason for this silence or lack of initiative on the part of the United States is related to our dependency on China for purchases and continued holdings of American government securities.

With $2.2 trillion in foreign exchange reserves in late 2009, around $1.5 trillion were in US denominated assets.

With looming fiscal deficits of over 10 percent of GDP, significant Chinese investments in U.S. government bonds could be an important factor for keeping interest rates down. Moreover, a major economic confrontation with China over exchange rates and trade could spillover into China selling a significant portion of its U.S. bond holdings.

As we work ourselves out of this recession and pare down our fiscal deficits, we should be mindful of the need to lessen our dependence on Chinese capital.

CHARLES KENNEDY *is on the faculty at the Schools of Business at Wake Forest University and a member of The Business Journal Editorial Board of Contributors.*