

How alternative currencies could catch on and cash in

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Credit: AI-generated image ([disclaimer](#))

Alternatives to cash, like Bitcoin and Uber, may never replace the coins in our pockets or paper bills in our wallets, but they are creating significant social and economic impacts, and with some design adjustments, could have even greater impact.

"It's not likely that any alternative currency is going to replace dollars, but I don't think these currencies need to replace money to still have a massive effect," says John Carroll, Distinguished Professor of Information Sciences and Technology at Penn State. "In fact, many of these new types of currency are already in the billion-dollar scale and, if they continue to grow, they could actually strengthen economic exchange by making it more diverse."

Carroll, working with Victoria Bellotti, a research fellow at the Palo Alto Research Center, examined three types of alternative currencies—cryptocurrencies, timebanks, and local currencies—that are influencing today's economy. Better technology and the increased uncertainty driven by the recent economic downturn have moved these alternative versions of money from the fringe into the mainstream market, Carroll says.

He explains that cryptocurrencies are digital currencies that use encryption to maintain security and anonymity. Bitcoin is the most popular form of cryptocurrency, generating more than 100,000 transactions each day.

Local currencies are forms of money that can only be used in certain geographic areas or cities. For example, Berkshares, a currency for the Berkshire area of Massachusetts, can only be spent at local businesses there.

"The idea is to keep money circulating in the community to strengthen the local economy," says Carroll.

Timebanking is a peer-to-peer system that allows people to exchange time, rather than goods, with each other, according to Carroll. Timebanking and other peer-to-peer exchanges are already having an impact on the economy, he adds.

"There are thousands and thousands of peer-to-peer businesses now; it's become quite explosive," says Carroll. "Businesses like Airbnb and Uber, for example, are transforming entire industries."

Uber, a ride-share system, is a twist on the timebank idea and a model that might foreshadow more effective ways for alternative currencies to fit into the economy.

"Uber is not time-based, but it enables riders and drivers to coordinate more flexibly and directly, reducing commercial and supervisory overhead," says Carroll.

Airbnb, which allows people to directly rent rooms or their homes to guests, has disrupted the hotel industry.

Blending real currency with alternative currency models may be one step toward more mainstream acceptance, according to Carroll, who spoke on such "complementary currencies" and other trends at the Computer-Supported Cooperative Work conference in Vancouver, Canada in March.

Advantages of alternatives

Carroll, whose interest in timebanking started three years ago, has investigated exchange systems in general and now believes that alternative currencies offer several advantages over traditional money.

First, he says, they could more easily inhibit what he terms "the hoarding effect."

"Hoarding is a problem with every currency, including dollars," says Carroll. "People will hold onto money instead of spending and investing it."

Negative interest rate methods effectively inhibit hoarding, he says, but people who already have money may oppose them. However, because alternative currencies have fewer fixed assumptions, it may be easier and more acceptable to build in a gradual loss of value as a way to encourage people to keep the currency in circulation.

Another potential advantage is that alternative currencies facilitate social interactions, in addition to economic interactions. Both timebanking and local currencies cause people to interact more, for example.

"You're offering services to people and receiving services from people, which reminds you that people are worthwhile, that they are essential," Carroll says.

Social psychology research has shown that the mere thought of money makes people feel less socially connected to other people.

"There are studies that suggest that even thinking about [money](#) makes you feel more independent and self-reliant, and then you start to believe everyone else should act the same way—which isn't always so good for society," says Carroll. "It's great to be autonomous in some respects, but beyond a certain point, it can weaken social coherence."

While cryptocurrencies are not as social as timebanks or local currencies, they do remove institutions, like local and national banks, from the process.

"Will cryptocurrencies replace banks?" asks Carroll. "I doubt it, but if banks had less hegemonic control of economic exchange, that could create new dynamics."

Problems for pioneers

The future of alternative currencies is still hard to predict, according to Carroll. He says that many of the alternatives to currencies will either improve or will be pushed out of the market. This culling of first-wave companies is referred to as the pioneer's penalty.

"Historically, the first generation of a given innovation ultimately is not the one that persists," Carroll says.

Bitcoin became the darling of those who wanted to challenge the economic order in a positive way, but also earned headlines for its use as a way to fund terrorism and crime.

"Bitcoin didn't do everything right," says Carroll. "I don't know whether becoming the currency of choice for murder-for-hire and drug deals helped them much. But it's often the case that those early pioneers make missteps that are corrected by succeeding initiatives, which may be what will happen here."

Provided by Pennsylvania State University

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