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## FISCAL IMPACT REPORT

ORIGINAL DATE 02/27/09

SPONSOR Sharer LAST UPDATED \_\_\_\_\_ HB \_\_\_\_\_

SHORT TITLE Economic Activity through Local Currencies SJM 50

ANALYST Hoffmann

### APPROPRIATION (dollars in thousands)

| Appropriation |      | Recurring<br>or Non-Rec | Fund<br>Affected |
|---------------|------|-------------------------|------------------|
| FY09          | FY10 |                         |                  |
|               | NFI  |                         |                  |

(Parenthesis ( ) Indicate Expenditure Decreases)

### SOURCES OF INFORMATION

LFC Files

Wikipedia (search: local currencies)

#### Responses Received From

Taxation and Revenue Department (TRD)

Department of Finance and Administration (DFA)

### SUMMARY

#### Synopsis of Bill

Senate Joint Memorial 50 requests the New Mexico Legislative Council to direct the appropriate Legislative committee to hear testimony and consider ways to facilitate economic activity by the use of local currencies. The memorial cites certain local currencies that presently exist in parts of the United States, and the potential benefits to populations living in depressed regions.

The memorial requests that copies be transmitted to the co-chairs of the Legislative Council.

### FISCAL IMPLICATIONS

Senate Joint Memorial 50 makes no appropriations.

### SIGNIFICANT ISSUES

According to Wikipedia, in [economics](#), a **local currency**, in its common usage, is a [currency](#) not backed by a national government (and not necessarily [legal tender](#)), and intended to trade only in a small area. These currencies are also referred to as **community currency**, or **complementary currency**. They encompass a wide range of forms, both physically and financially, and often are associated with a particular economic discourse

[Free banking](#) provides the economic prototype of local currencies. In the modern era, the most recognizable local currencies were [company scrip](#) issued in certain industries to pay workers, and [token coins](#) issued by some businesses to encourage consumer loyalty. In the nineteenth and early twentieth century, the failures of national banks during crises often created acute demands for cash, which were met by businesses creating [emergency currency](#). These scrips were usually issued with the intention of redemption in national currency at some later date.

Advocates, such as [Jane Jacobs](#), argue that this enables an economically cool, yet depressed region to pull itself up, by giving the people living there a medium of exchange that they can use to exchange services and locally-produced goods. In a broader sense, this is the original purpose of all [money](#). Local currencies also tend to operate in relatively small geographic regions and encourage recycling, reducing the amount of carbon emissions from the transportation and manufacture of goods. As a result, they are part of the economic strategy of many green and sustainable living groups such as the [Green Party of England and Wales](#).

Opponents of this concept argue that local currency creates a barrier which can interfere with [economies of scale](#) and [comparative advantage](#), and that in some cases they can serve, like traditional national currencies, as a means of [tax evasion](#).

## **TECHNICAL ISSUES**

The DFA points out that Section 8 of the United States Constitution gives the power “To coin Money, regulate the Value thereof, and of foreign Coin” exclusively to the United States Congress.

The New Mexico Taxation and Revenue Department notes that regardless of currency, the types of exchanges that would likely take place in a local currency are still taxable.

The Internal Revenue Code has similar rules for the taxability of these types of exchanges.

Both federal and New Mexico State taxes must be paid in U. S. dollars.

CH/svb