

**Business-to-business barter networks and the social economy**

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### *Abstract*

*Civil society and private sector actors across the political spectrum are creating non-national money systems. Information and internet technology coupled with global financial and monetary volatility provide conditions for their proliferation. Much of the developing industries and institutions are unregulated. In this paper I provide information and analysis useful for development of critical discussion for social, cooperative and public economy actors on non-national money systems. I use business-to-business barter as a case study examining the mechanics of its functioning as a trade exchange system and barter credit system and consider business-to-business barter's impact in the macroeconomy. This paper is a contribution toward the idea of cooperative business-to-business barter as social market economy reform.*

### ***ABSTRACT FRENCH***

### ***ABSTRACT SPANISH***

## **Business-to-business barter networks and the social economy**

### **Introduction**

The last two decades have seen a proliferation of initiatives and experiments in non-national money systems. New organizations and institutions deploy techniques to create currency toward various objectives. The social money and complementary currency movements trace the beginnings of the current period of innovation to the establishment of the first LETs, or Local Exchange Trading system, in Comox Valley on Vancouver Island in Canada in the early 1980s by Michael and Shirley Linton. They also identify with the historical period of experimentation in the 1930s in Europe and North America. The WIR<sup>1</sup>, or Wirtschaftring (economic circle), a business-to-business barter network system established in Switzerland during that period, is one of this movement's proclaimed successes. Today, the WIR Bank still continues to operate as a cooperative and is one of the largest business-to-business barter networks in the world.

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<sup>1</sup> "Wir" means "we" in German.

## **Why bring business-to-business barter to the attention of social, public and cooperative economy actors?**

Changes are occurring in the realm of money and currency systems across the social, political and economic spectrum. Some have already become ubiquitous such as electronic, internet-based payment systems like PayPal. Others are less known but also rapidly growing like private sector e-metal and e-currency systems and civil society social money and complementary currency initiatives. Business-to-business barter straddles the worlds of social, public and cooperative economy and mainstream capitalism. Civil society actors point to the potentials of business-to-business barter systems while in fact more than 99 percent of them are private sector, for-profit businesses. Business-to-business barter is already a multi-billion dollar, transnational industry with evolving institutions and infrastructure.

Business-to-business barter, also known as trade exchange, barter exchange and commercial (versus corporate) barter, has not been much studied from the social money and complementary currency perspectives, and its relation to the social, public and cooperative economy is virtually unexplored. My purpose in bringing business-to-business barter to the attention of social, public and cooperative economy actors is to contribute to an informed discussion about: 1) Its relevance to the social, public and cooperative economy, and 2) Developments in non-national money systems. Business-to-business barter and non-national money systems are proliferating and growing new institutions. These developments bring up questions about society's relation to the state and the state's role in the life of society.

An understanding of trade exchange would contribute to development of a social, public and cooperative economy perspective on business-to-business barter and other non-national currency systems and their impact on the economy and society. My purpose in this paper is not to discuss these issues but to provide information and analyses that would be useful in such discussion. I have included description of the mechanics and functioning of trade exchange using the example of business-to-business barter and a discussion of some points to consider.

### **1. Trade exchange and social money**

Blanc (2006: 14) identifies three characteristics of social money. It envisions:

1. The localization of transactions at the heart of the space considered and the privileging of the use of local revenues to support local production.
2. The dynamization of exchange for the benefit of the populace and the rejection of the accumulation, conservation and concentration of wealth.
3. The transformation of the practice and representation of exchange. This especially pertains to the status of the exchangers, revalorizing the productive capacity of people not valued by the salaried or self-employed economy, the relation between exchangers and the rules of the market.

By the above definition of social money, the WIR Bank, although the organization is itself a cooperative, is not a social money system. It was founded as, and continues to be, a system facilitating exchange and accumulation among small and medium business. Yet, the WIR Bank is commonly considered a social money system.<sup>2</sup>

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<sup>2</sup> See, for example, “1.2 Fondements et contexte historiques” in Blanc (2006).

Community currency, parallel currency, local currency, regional currency, social money and complementary currency are terms in current usage emphasizing different aspects of non-national currencies deployed by civil society actors. The term “social money” “moneda sociale” “monnaie sociale” puts the focus on the social and economic outcomes to be achieved. Social money is a concept originating from Latin America and spread through the Spanish-, French- and Portuguese-speaking parts of the world first through the Alliance for a Responsible, Plural and United World.<sup>3</sup> This concept brings the technique of local, non-national currency system near or into the realm of the social or solidarity economy. “Complementary currency” is widely used in English- and Germanic-language parts of the world. Here the emphasis lies on the co-existence of the non-national currency with the national currency system, the social and economic significance of such projects implied. The complementary currency movement includes a range of political outlooks that share the notion that the national currency system is inadequate. This term is rarely used in the Spanish-, French- and Portuguese-speaking world, nor is the term “community currency”. “Parallel currency” is rarely used. The term denotes currency separate from the national currency system. “Local currency” and “regional currency”, as their names suggest, refer to the geographic dimension and also an outlook vis-à-vis the globalization of money and finance systems. Both are used widely, regional currency being a more recent strategy and therefore a more recently circulated concept.<sup>4</sup>

Social money sees the creation of a local money system as a technique toward achieving a type of social economy. Many proponents and practitioners of complementary currencies, too, hold these objectives. In such cases, the social money and the complementary currency movements

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<sup>3</sup> Blanc (2006)

<sup>4</sup> See Blanc (2006) for a discussion on terminology.

overlap, complementary currency being the form deployed to achieve social money objectives. The complementary currency movement, though, also includes adherents of libertarianism and left libertarianism<sup>5</sup>. Proponents embrace private sector, for-profit business-to-business barter.

From within the complementary currency movement there has been mention of cooperative, business-to-business barter organization as a possible tool for reform of the social market economy in the context of creating regional complementary currencies<sup>6</sup>. This paper is a contribution toward the consideration of this idea.

## **2. Trade exchange and the real economy**

Most fundamentally, an exchange system is a device facilitating real economy activity. The two major parts of an exchange system are therefore the real economy participants and factors and the currency system.

In developed economies, work is specialized and production and (re)distribution of goods and services are organized on large scale. In order to exchange in a local network, such as in a LETs or SEL, participating individuals must be both producer and consumer – prosumer, prosumidor<sup>7</sup>. If the members are not producers as well as consumers, little exchange and production would occur. If the members are producers of the types of goods and services exchanged in the local exchange network, then they are, or approaching, entrepreneurs, perhaps home-based sole proprietorship micro-businesses.

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<sup>5</sup> Blanc (2006).

<sup>6</sup> Kennedy (2006).

<sup>7</sup> Blanc (2006).

Small businesses act like prosumers in that they produce goods and services as individuals, or close to the scale of the individual or the cottage industry, and are also consumers. A survey of business-to-business barter members revealed that small business owners seemed to use trade exchange as a means to acquire goods and services for personal as well as business consumption.<sup>8</sup> This further blurs the distinction between business and prosumer in the context of trade exchange.

The design of the barter credit system itself is relatively simple. It is a tool used by the trade exchange to organize proximate (and increasingly distant) SMEs into networks of trading partners. Birch and Liesch's (1998) survey showed that members believed their habits as producers and consumers were changed over time to incorporate the use of business-to-business barter as part of their regular practice. They felt that good management of the trade exchange organization rather than demand for trade exchange services in times of recession would be the reason a trade exchange organization would continue to be attractive<sup>9</sup>. The growth of the business-to-business barter industry is based on the productive potential of participant businesses and the trade exchange organization to manage this potential.

Many social money and complementary currency initiatives have both an economic stimulus and a social inclusion or transformation objective, often with participants who are not producers (of the kinds of goods and services traded in the local exchange system) and/or are marginalized in society and/or the economy. The design of the credit system is the site of much discussion and experimentation usually with the intent that certain features produce certain outcomes.

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<sup>8</sup> Birch and Liesch@ (1998)

<sup>9</sup> Birch and Liesch (1998)

Demurrage, for example, is a feature that was used and theorized in the 1930s and is the subject of much current discussion. Demurrage is a price on the currency. Typically, a periodic fee must be paid by the user. In the example of the Prosperity Certificates introduced in Alberta by the provincial Social Credit government in 1936, for example, a one cent stamp was to be affixed onto the back of the one dollar certificate by the user once a week. The intent of imposing a demurrage charge was to encourage greater velocity in the circulation of the money i.e. spending. This feature proved to be unpopular; people would spend their certificates just before the fee was due leaving merchants with piles of certificates owing demurrage charge. Also, the stamps fell off the certificate. An area little researched is the effective price on the use of a trade exchange currency. Another area of little research is the administrative features of the credit system.

One of the most successful local exchange initiatives is Time Banks. Its success, I believe, is due to both a well-designed exchange system and a well-managed organization. Time Banks has been able to engage the most socially excluded people in social exchange<sup>10</sup>. The Time Banks organization does not describe itself as a social money or social economy project but its mission and strategic use of currency system would qualify it as a social money system. Time Banks is headquartered in the US with local organizations in 22 countries. Their mission is:

To expand a movement that develops, supports, and promotes a network of Time Banks that rebuild community, and reforms economic and social systems, policies and practices so that they empower human beings to contribute to the well-being of each other through reciprocity.<sup>11</sup>

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<sup>10</sup> The first Time Bank was run out of a doctor's office in Florida in the 1980s by founder civil rights lawyer Edgar Cahn. Cahn's purpose was to keep people from (re)entering the institutionalized mental health system. See Time Banks website for more details.

<sup>11</sup> TimeBanks website.



The objective of a typical Time Banks is to have people spend time with each other. The economic productivity dimension of such social activity is de-emphasized, although it is understood in the Time Banks model that such activity is the productive work at the core of the economy. The Time Banks accounting system simply keeps track of units of time i.e. number of hours participants “earn” or “spend”.

Other practitioners have created exchange systems toward various and sometimes multiple objectives with features including creation of small business and consumer circuits, generation of grants for local social inclusion projects, equating a unit of time of work with a credit amount e.g. one hour of work is worth ten community currency dollars, declaring all work performed in the exchange are of same value (no matter the typical market value), “giving” barter credits to participants upon entry to the exchange, building in demurrage charge, building in expiry dates on scrip and charging users a fee for exchanging trade exchange credits back to national currency (in cases where trade credits come into existence by being bought with national currency).

Design of the exchange system has to account for objectives, characteristics of exchange participants, administration of the credit system, management of the organization and types and scope of activities undertaken. These will affect functionality of the credit system and the trade exchange system as a whole. Business-to-business barter systems have a fairly simple objective of increasing trade among members with the use of a fairly simple barter credit system model. The growth of the business-to-business barter industry must be analyzed in relation to these elements and to its relation to the mainstream economy as must the development of other trade exchange and non-national currency systems. This is an area for further research.

### **3. The Functioning of Trade Exchange**

Business-to-business barter networks, LETs (Local Economic/Exchange Trading) systems and SEL (systèmes d'échange local) as well as many other local currencies, are types of trade exchanges and share the same basic architecture. The mechanism and technical features of community currency systems is the site of much discussion and experimentation, often seen as key to achieving particular social and economic outcomes. Although barter exchange produces much greater volume of exchange than does local exchange, its features are basic, consistent in the industry and proven effective in facilitating exchange. Thus, it provides a good case study and model for understanding why and how trade exchange works. An understanding of trade exchange should be useful for critical analyses of civil society and private sector non-national currency initiatives as well as for discussing the relevance of business-to-business barter for the social, public and cooperative economy.

#### **History**

The first business-to-business barter network was established as a cooperative under banking laws in Switzerland in 1934. While initiatives by towns and provincial governments in non-national currency systems were shut down by national governments in Europe and North America, the WIR was allowed to continue its operations. The issuance of Prosperity Certificates by the provincial Social Credit government of Alberta in 1936, for example, was determined to be unconstitutional by the Canadian federal government.

Today, the WIR Bank still operates as a cooperative and is one of the largest business-to-business barter networks in the world. In 2006, a trade volume of 1.67 billion WIR francs (CHW) was generated and CHW 77.3 million in new credit was created for a total of CHW 792 million. Of the 73 134 WIR accounts, 31% of the businesses were from the construction industry, 21% were retail businesses, 4% were from the restaurant and food industry, 14% were from the service sector, 14% were manufacturers and artisans and 14% were wholesalers.<sup>12</sup>

WIR Bank is an exception in the business-to-business industry for its early establishment and longevity, for its size and for the fact that it is a cooperative. A handful of other much smaller business-to-business barter network cooperatives operate in the world but over 99 percent of business-to-business networks are for-profit private sector enterprises.

BarterNews, a business-to-business barter industry information source, lists 788 companies in its directory. While the listing may not necessarily be reflective of the industry worldwide because companies pay US\$50 for the listing, the site is based in the US, the only language of communication is English, and the list is not entirely up-to-date (i.e. my cross-checking of some companies listed showed some were no longer in existence) it nonetheless gives some indication of the size of the industry. Most of the companies listed, 529, were located in the US, 67 were in Canada and 59 were in Australia. In all, business-to-business barter companies were listed in 44 countries spanning all parts of the world.<sup>13</sup>

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<sup>12</sup> “Rapport de gestion 2006”, WIR Bank.

<sup>13</sup> See “Barter Contacts: USA Barter Companies, Global Barter Companies” at BarterNews, [www.barternews.com/](http://www.barternews.com/).

The commercial barter industry has been growing rapidly in the past three decades and the current period of development has been described as the “second wave” of business-to-business barter.<sup>14</sup>

From 1974 to 1996, the volume of trade among small barter exchange grew from US\$45 million among 100 trade exchanges handling 17 000 businesses to a volume of US\$1424 million among 390 trade exchanges representing 400 000 businesses<sup>15</sup>. From a survey conducted in 2004 of 699 members worldwide, the International Reciprocal Trade Association (IRTA) found there to be a 7% increase in volume of trade that year. The respondents reported volumes of trade to range from several hundred thousand dollars to tens of millions of dollars. Commercial trade exchanges had on average 750 member businesses each generating an average of \$9000 of transactions a year. On average, the trade exchanges reported 22 new businesses taking up membership each month.<sup>16</sup>

Information technology has provided tools for rapid growth of the business-to-business barter network industry allowing any small, independent operator to offer fairly sophisticated services. As with a LETs or SEL, a centralized accounting system lies at the heart of the operation facilitating sales and purchases among members without the use of national currency. Information technology and internet technology provide powerful and efficient means for creating a centralized database, facilitating trade and for other activities such as marketing products and services offered by members and sharing member contact information. It is also providing the means to create transnational trade exchange networks.

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<sup>14</sup> Marvasti and Smyth (2006).

<sup>15</sup> Marvasti and Smyth (2006: 398). Footnote 3 citing data source as IRTA.

<sup>16</sup> International Reciprocal Trade Exchange (2005).

The current period of experimentation and innovation in non-national currency systems in civil society and the private sector coincides with two developments, that of increased financial and monetary volatility in the world and that of increasing sophistication and accessibility of information and internet technology. The number of complementary currencies grew from the first LETs founded in 1982 to about 4200 by 2004.<sup>17</sup> The electronic currency and electronic metals industries are even newer and are growing rapidly globally. Catering to the desire for personal financial security, these industries have created e-gold and other products that promise the user a new type of gold standard, bypassing national currencies as a means of payment and store of wealth. All of these innovations are attempts to alleviate problems due to financial and monetary instability in the world by creating money systems outside the central bank and national money systems.

Today, small and medium businesses often operate in global markets. Even those established in relatively stable, developed economies are vulnerable to financial, monetary and economic conditions around the world. The business-to-business barter network seems to offer small and medium businesses a facility to counter conditions they face.

### **A firm-level view of how business-to-business barter works**

The business-to-business barter company creates and networks a membership of small and medium enterprises in a region. The industry has also developed transnational networks making transnational trade possible between small and medium enterprises (SMEs) via their regional business-to-business barter company. The business-to-business barter company typically charges membership and transaction fees (in national currency) and provides promotion and

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<sup>17</sup> Lietaer (2006)

facilitation of sales and purchases among the SME members. It creates a virtual regional market forming a network among the members.

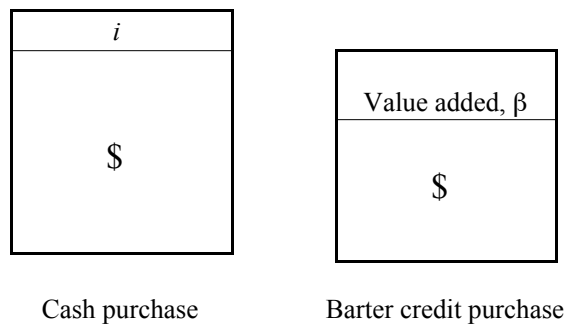
The business-to-business barter organization centralizes the flow of trade and information acting as a hub to the network of the SME members. Sales and purchases among members are recorded as barter credits and debits. These are typically denominated like the national currency in which the exchange network operates e.g. the WIR or WIR-Geld (CHW) in Switzerland, Bartercard Trade Pound (£) in the United Kingdom, ITEX dollar (ITEX dollar) in the United States. Prices are set by the member firms.

From the point of view of the firm, potential benefits of membership include: increased sales with other members of the network in barter credits, increased cash sales from referrals by other members, and access to an extensive membership-based business network. Birch and Liesch (1998) found that members of Bartercard in Australia identified the benefits of membership to be the acquisition of new customers, increase in sales and having greater opportunities for networking and accessing business contacts. Their survey also suggested that prices within the barter network may be at market levels or higher and that the transaction fee is regularly built into the price. It is a common claim by business-to-business barter companies that one of the benefits is the possibility of charging rack rather than discount prices and this seems to be borne out in this study. Survey response suggests that members were willing to pay the higher barter network price for better after sales service and because the social ties formed made social connection as well as price an important consideration in the trade. It cannot be determined how much these findings may be generalized but they suggest that the social networking that takes

place among business-to-business barter network members is an important dynamic. Anecdotal evidence suggests that lasting business and social ties are formed and thicken among small business owner members of business-to-business barter networks.

Another interesting finding is that it seems possible that one of the benefits to small business owners is an increased personal standard of living due to accessibility of personal services through the barter network. While responses were ambiguous on this point, the authors surmise that the barter credit system afforded small business owners access to personal services they could not otherwise afford under the cashflow and other constraints of running small businesses.

Increase in profits and preservation of cashflow were not perceived to be significant benefits in the survey. Nonetheless, trade exchange provides the member business with the facility to pay for purchases using less cash. A purchase made in the mainstream market typically costs the purchase price plus interest. The same purchase made in barter credits costs the business the cash amount of their marginal cost and the remainder paid in the value-added generated by their business. If a restaurant owner pays for a batch of business cards, she or he may pay, for example, \$100 plus a few dollars interest e.g. if paid for on a line of credit, in the mainstream economy. If the restaurant owner makes the same purchase through trade exchange with barter credit, his or her cost would be the restaurant's marginal cash cost i.e. for rent, wages, food supplies etc. with the balance "paid" by the restaurant's value-added. The cash saving is therefore interest plus the value-added amount,  $i + \beta$ .



Thus, the option to purchase with barter credit provides the member business with a type of interest-free financing and reduced cash expenditure reducing the strain on cashflow. Problems with cashflow are a major reason for small business failure so businesses would conceivably make greater use of business-to-business barter when faced with cashflow stress. As well, businesses would conceivably make greater use of business-to-business barter when they need financing, in periods of growth.

#### **4. Impact on the Region and the Macroeconomy**

James Stodder's study of exchange networks reveals a stabilizing and sometimes counter-cyclical pattern of usage of business-to-business barter in relation to the macroeconomy. More specifically, Stodder studied the WIR Bank in relation to the Swiss economy and corporate barter in the US. For the study of the WIR, he compared the Swiss unemployment rate, Gross Domestic Product, and money supply (M2) with the volume of exchange in WIR and the number of WIR accounts. What he concluded was that the WIR Bank's creation of money and credit is much more sensitive than M2 to economic conditions. This is seen in the usage of the WIR Bank by the member businesses to meet their demand for liquidity and credit:



- A 1 percent increase in the long-term money supply (M2) is reflected in a long-term increase of between 4.9 to 8.2 per cent in the annual turnover of WIR accounts, and between 5.4 to 9.4 percent in the credits advanced on that Turnover.
- A 1 percent decrease in GDP is reflected in a long-term counter-cyclical increase of between 5.8 to 12.5 percent in WIR turnover, and between 6.2 and 14.2 percent in the credits advanced on that turnover.<sup>18</sup>

Stodder explains that the increase in M2 and the corresponding greater increase in WIR credit indicates that in times of expansion the WIR provides a credit facility more responsive than the national money supply. Likewise, the increase in trade in WIR in a downturn as indicated by a decrease in GDP means the WIR Bank is providing a facility for selling surplus inventory and productive capacity during a contraction. Stodder found stabilizing and even counter-cyclic effects of the WIR Bank in relation to the macroeconomy. Business-to-business barter, he reasons, may be able to “reach deeper” into the macroeconomy than can standard monetary policy to provide stability measures.<sup>19</sup> The facilities for credit creation and for selling surplus inventory and capacity, he reasons, are the likely reasons for the WIR’s counter-cyclic pattern. For the SME, this means a greater chance of surviving business cycles and their own fluctuating environments.

The barter credit currency facilitates trade among a sub-population of the region. It is a network whose membership and volume of trade is but a tiny fraction of that of the national economy. WIR volume of trade amounts to about 0.3% of M2<sup>20</sup>. While the usage of the WIR in relation to the Swiss franc may have a stabilizing or counter-cyclical pattern, volume of usage in the region is not symmetric. Usage of the WIR, Stodder explains, would not have an effect on inflation or Swiss money supply given these relative levels.

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<sup>18</sup> Stodder (2005).

<sup>19</sup> Stodder (2005; 2006).

<sup>20</sup> Stodder (2006).

Small and medium businesses have the choice to switch to business-to-business barter and maintain price levels rather than discount their prices on surplus inventory or productive capacity. Stodder noted that prices quoted in WIR were higher than they were in the mainstream economy. The higher WIR prices, Stodder suggests, are beneficial since lower prices in WIR would have had a trade diverting effect. Birch and Liesch (1998) also found that prices in Bartercard credit were higher than in Australian dollars, as discussed above. It is possible that the barter network helps to maintain price levels and purchasing power in the region. This is an area for further research.

#### **5. Business-to-business barter network in the region: A dual currency system**

Based on its functionality, the business-to-business barter credit system could be considered to some degree as money<sup>21</sup>. It is not part of the central bank system of money but an instrument of the regional economy. The barter credit system introduced to the region is an innovation that allows for the functions of money to operate separately.

The barter credit system creates a new source of medium of exchange and credit, facilitating an increase in the volume of trade. At the same time, the national currency continues to function as an interest-earning asset and store of value for the network participants. This is a dual currency system with facility to create liquidity for increased real economy productivity without increase in inflation in the short term.

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<sup>21</sup> Marvasti and Smyth (2006).

Both the national currency system and the barter credit system is used by the members of the business-to-business barter network, in the same way that they are engaged in the economies of both the mainstream market and that of the barter network. Proponents of complementary currency have identified the business-to-business barter credit system as a “complementary currency”<sup>22</sup>. Birch and Liesch (1998) observe that Bartercard’s barter credit system is not integrated with the “orthodox monetized system” and is limited in functionality. “Although the two exchange systems might be complementary in that perceived deficiencies in one provide for opportunities in the other, they cannot be used interchangeably.”<sup>23</sup>

The business-to-business barter credit system and national currency system function as a dual currency system where the barter credit system functions as an **extension** to the national currency system. While the barter credit system provides a unit of account or “index of valuation”<sup>24</sup> the national currency remains the reference currency providing the barter credit currency its measure of value. This is the case when the national currency generally has credibility. The barter credits come into existence only through the trade activity of its members and not through purchase with national currency. That is, the barter credit system creates money endogenously and functions as a store value as well as provides an additional source of liquidity and credit.

Each small and medium business member of a business-to-business barter exchange network faces its own dynamic conditions. The business-to-business barter exchange network provides a

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<sup>22</sup> See for example Transaction Net website.

<sup>23</sup> Birch and Liesch (1998: 339).

<sup>24</sup> Ubarter (1998).

facility for the firm to stabilize operations against these dynamics by creating new credit and trade facilities and new relationships between businesses in the region.

## **6. Industry organization and governance**

Business-to-business barter continues to grow and evolve. While most business-to-business barter networks are single regional organizations, themselves small businesses, some have grown into multi-million dollar, publicly traded corporations with national and multinational franchise operations. Bartercard International headquartered in Australia has franchises in 13 countries, 55 000 member businesses and over AUD\$1 billion annual trade volume.<sup>25</sup> ITEX is headquartered in the US with franchises in North America, 24 000 member businesses, over 95 franchisees and licensees and US\$240 million in transactions a year.<sup>26</sup> International Monetary Systems headquartered in the US with franchises in the US and Canada experienced a 104% increase in transactions from a volume of US\$4.6 million in sales in June 2006 to \$9.4 million in June 2007. Gross revenue between the two periods increased 79% to US\$1.1 million in June 2007.<sup>27</sup> These three companies are publicly traded. The WIR Bank is the only cooperative business-to-business barter organization of this scale.

### **Associations and industry self-regulation**

The industry infrastructure also continues to grow facilitated by industry associations. The two largest associations representing business-to-business barter are located in the US. The International Reciprocal Trade Association is committed to, "...promoting just and equitable standards of reciprocal trade and raising the value of reciprocal trade to businesses and

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<sup>25</sup> Bartercard International website.

<sup>26</sup> ITEX website.

<sup>27</sup> International Monetary Systems website.

communities world wide by educating, self-regulating and leading by example.”<sup>28</sup> It represents the interests and membership of commercial barter and corporate barter companies<sup>29</sup> located in North America, South America, Europe and Australia. The National Association of Trade Exchanges (NATE) has a membership of business-to-business barter companies in the US, Canada and Singapore.

Codes of ethics of the IRTA and NATE address the actions of members in the conduct of trade. Both offer certification of brokers toward achieving some industry-wide recognized standards of business practices. Both associations have worked with regulators in the US to develop regulations and to educate and enforce member business’ compliance with legal obligations, namely, in the taxation of trades committed through trade exchange.

Under the US Tax and Equity Fiscal Responsibility Act of 1982, the US government legally recognized trade exchanges as “third party recordkeepers”, a status like that of stockbrokerages or banks. The sales and purchases made by businesses via barter exchange are fully taxable. Business-to-business barter companies are also considered third party recordkeepers in Canada; barter trade is also taxable in Canada, the UK and Australia. Taxation legislation and regulation provide a clear indication that governments recognize developments are occurring in business-to-business barter. From Revenue Canada’s bulletin regarding barter,

2. In its simplest form, bartering consists of trading by exchanging one commodity for another. Recently, however, the practice of bartering for goods and services has evolved into a sophisticated computer-controlled system of commerce proliferated by franchised, member-only barter clubs, where **credit units possessing a notional monetary unit value have become a medium of exchange.**

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<sup>28</sup> IRTA website, 222.irta.com.

<sup>29</sup> Corporate barter companies buy and sell surplus inventory from and to businesses using trade credits.

4. The Department takes the view that **barter transactions are** within the purview of the Income Tax Act. Such transactions can therefore result in income or expense as .... **on the same basis as if cash was the consideration.**<sup>30</sup> (emphasis mine).

In ruling that barter and trade exchange transactions are taxable, governments have conferred a degree of legitimacy on barter credit as a type of money. That is, business-to-business barter organizations have created and are operating private sector, sometimes corporate, types of money and money systems unregulated and with a degree of recognition by states.

Some of the multinational business-to-business barter corporations offer their members the capacity to trade among the entire network comprising the whole franchise or multinational operation. Bartercard International, for example, offers its member businesses the opportunity to trade with members in other countries who belong to the various Bartercard International franchises. In this case, the corporation is an institution providing the “community” and the infrastructure promoting and facilitating transnational trade within the network. Barter credits referencing the various national currencies in which the franchises operate become convertible in relation to each other within this private, transnational barter credit system.

Even larger than these corporate networks, both the IRTA and NATE operate internet-based electronic barter credit systems among their members. The IRTA operates the Universal Currency among more than 95 business-to-business barter networks in turn representing over 110 000 businesses in North America, South America, Europe and Australia<sup>31</sup>. NATE operates

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<sup>30</sup> Revenue Canada (1982)

<sup>31</sup> IRTA website [www.irta.com](http://www.irta.com).

BANC or Barter Association National Currency among 50 000 businesses in United States and Canada<sup>32</sup>.

The commercial barter industry is evolving thickening networks connecting small and medium enterprises across national borders. Legal recognition of barter credit is currently limited to the realm of national tax laws. Larger questions about the relation of private currencies to national currencies and the state are yet to be addressed.

## **Conclusion**

Non-national currency initiatives by civil society and the private sector are still in early phases of development and growth. The business-to-business barter industry is rapidly growing and evolving sophisticated transnational institutions. Our understanding of the implications is nascent.

Business-to-business barter holds promise as a regional trade and currency system creating new abilities for the economy to stabilize that standard monetary policy cannot achieve. This can mean greater survival for small and medium businesses, thicker social relations in the region and better health for the economy. The WIR Bank demonstrates the potentials for cooperative business-to-business barter organization and possibilities for a reform of the social market economy.

Informed discussion requires research into a number of areas. Civil society proponents of business-to-business barter point to the potentials of business-to-business barter but have not

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<sup>32</sup> NATE website [www.nate.org](http://www.nate.org).

discussed developments in the industry, evolving institutions and the need for regulations and international codes of conduct. The issue of society's relation to the public and the real economy in the realm of social money and complementary currencies, private sector currencies and barter exchange systems remains largely unarticulated.



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