

## BE YOUR OWN BANK

Article by Daniel Evans, XO Limited

**Inflation proof and interest free money! Interest free loans available to anyone! The end of poverty!** Sounds like a pipe-dream doesn't it? The truth is that the mechanism by which this can be achieved is as old as time and already operates on a small-scale in many places throughout the world.

In order to examine how this is possible we must first understand what money is and where it comes from.

**Money is anything accepted as payment for goods and services by most people in an area at a given time.** It is simply a token, a promise that the item of exchange is able to be redeemed for goods and services and, therefore, money can theoretically be anything that people desire to own, not for its direct use, but rather for its value in trading for things that are useful. Until recently the world-wide preference for money has been gold.

There are essentially only three types of money:

- Commodity (*also known as Resource or Representative*) Money
- Fiat (*or Credit*) Money
- Barter (*also known as 'Mutual Credit' – which some claim is not money at all*)

**Commodity Backed Currency** is money that can be redeemed for gold, silver, or something with a recognized “intrinsic value”. This form of money is effectively an IOU which can be remitted at any time for the product which it represents. It is also very savable as it is virtually impossible to counterfeit (*try passing off a fake cow to someone and see if you can make it out of town before the recipient realizes their mistake*). In the United States the dollar was defined by the Coinage Act of 1792 as 325.25 grains of silver. This differs from the current US Dollar which now is a fiat currency.

Another benefit of commodity backed money is that it does not deteriorate in value however it also has several intrinsic problems. One such problem is that the unit of measure (such as gold) may be limited by the cost of producing it and/or its scarcity.

This also represents a catch-22 situation. No one will issue a currency backed by something that is readily available to everyone, yet there needs to be enough of the backing-unit accessible to anticipate growth in the local economy (caused by consumer desire and/or population increase).

We are currently seeing a resurgence of commodity backed currencies with the rise of online services such as e-gold (*which claims that they will convert your cash deposits into a virtual currency which it backs by gold held in vaults*). The downside to these currencies is that any such company having operating costs in excess of revenue may be tempted to borrow against the gold in its reserve. Such a problem may only be realized if there is a “run” on the currency, caused by a lack of belief in the system. The majority of the participants wanting to withdraw their gold will reveal any deficit in the system.

In contrast to commodity backed money, **Fiat Currency** is not representative of any fixed assets or the promise of redemption in some other form. The acceptance of this money is therefore solely dependant on the recipients 'belief' that others will also accept and honor the money.

In 1971 President Nixon unilaterally resigned from the Bretton Woods Accord. At the heart of the agreement was the guarantee that the US would redeem one ounce of gold for every \$35 held by foreign governments. The agreement collapsed because foreign holders of dollars started demanding gold but there were too many dollars in circulation to honor the redemption guarantee. This brought about the rise of fiat currency in the United States, a move which was quickly followed by other countries.

The built in flaw is that fiat currencies always keep the total sum of all debt well ahead of the money available to repay it.

An example of this is a bank printing and lending out \$1000. It then asks the borrower to return the initial \$1000 plus interest of \$100 in a year's time – that is 10% interest. The only way in which the borrower can return 1100 of the banks notes is if the bank prints, and lends, \$100 more – for which it will again charge interest.

A complex system then has to evolve to track the interest charges, print more money, value one currency against another, manage accounts and track the flow of money as it is inter-changed between various governments.

The benefit (and downside) of fiat money is that it has no “intrinsic value” and there is no limit as to how much can be created. Another problem is that when people begin to doubt the purchasing power of fiat money, banks fail and the currency collapses.

Today, worldwide government debt is in excess of \$13 trillion with more dollars owed to financial institutions than there is actually in circulation. As more money is printed and lent out to repay this debt a cyclic problem emerges. If too much money is printed then the currency becomes devalued as the purchasing power is reduced.

The precursor of both fiat and commodity backed money was **barter**, where people engaged in the direct exchange of one type of good for another.

Aside from the obvious issue of fair trade (ensuring that the items being swapped both have the same value), barter has other problems such timing restraints and quantity restrictions. If you wish to trade corn for fish you can only do this if corn is in season. If you wish to trade a tonne of corn for a tonne of fish you have to ensure that you need a tonne of fish before you carry out the trade.

If the trade takes place now when corn is not readily available, or you are unable to use all of the fish now, then an “IOU” or intermediary resource is needed. When such an intermediary is introduced this becomes the basis of a commodity currency – money backed by a multilateral barter agreement between all participants.

Some money purists argue that this is not, strictly speaking, commodity money at all - as the commodities are not handed over to a 'neutral' intermediary, however, using a somewhat broader definition – where all of the commodities stay with their source of generation until sold – we can draw parallel between this form of money and other forms of “resource / representative / commodity” currencies.

Interestingly there have been a range of currencies which are both a commodity and a means of keeping tally in a mutual credit/barter type environment.

Examples of this type of currency appear throughout history:

- In ancient China tea leaves were compressed into “bricks”
- In medieval times Iraqis used bread
- At various stages in history Russians used compressed cheese
- Through the colonial era when gold was rare commodity money was present in the form of gunpowder, musket balls, corn and hemp.
- Today, cigarettes are traded in prisons and social-settings whilst in the remote parts of Columbia coca (or cocaine) is used in lieu of a nationally issued currency.

Each of these items was desirable in their own right and was inter-tradable with other items which the holder of the currency might desire to acquire.

One of the (many) stumbling blocks of this type hybrid/forth type of money is that not everyone in the community may desire the resource which is backing the currency. Furthermore where the price of the commodity is fixed (i.e. an hour of an accountants time in Australia is set at the same rate as an hour of an accountants time in Thailand) the currency is no longer driven by market forces.

Exchange rates between various commodity backed currencies do not take into account the entire spectrum of products or services offered by each community as they fix all prices against a single unit of measure.

The other major problem is that commodity money is still issued by a central (reserve) banking organization. An end-user cannot create their own gold-backed currency if they are not able to acquire gold (*gold not being a resource that everyone can create or come into possession of easily*).

With the introduction of “barter dollars” as a method of keeping track of multi-lateral barter transactions, restrictions on barter are lifted and trade becomes more readily available. The “wants and needs” of some can then be met by the “wants and needs” of others in the community.

**There are many advantage of multilateral barter (mutual credit) over fiat currency:**

#### MEMBERS PAY FOR THINGS THEY NEED IN KIND

- Purchases are funded solely through the sale of the buyers own goods or services.

#### IMPROVED LIQUIDITY OF LOCAL COMMUNITIES

- Currency does not have to be brought in from outside of the region.

- Unused potential production, or unsold stock, can be purchased by businesses or individuals who have, in turn, the ability to 'make' their own money.

#### STABILIZATION OF WILDLY FLUCTUATING GLOBAL ECONOMIC SYSTEMS

- The spending and acceptance of "barter dollars" becomes market driven rather than government policy driven.
- Sellers are able to set their own international selling price for their product - external to the influence of major foreign currencies. Purchases of the sellers' goods will be based directly on perceived value, rather than on the value imposed through the complexities of foreign exchange.

#### RESOLVES THE ISSUE OF THE SCARCITY OF MONEY

- You don't have to wait for the government or a bank to print and then lend out more money.
- No waiting for more gold to be mined and put into the reserve banks vault.

#### NEW MONEY IS EASILY GENERATED

- Today's method of earning money is simply a transfer of ownership of printed currency, not the generation of new currency from the labors of the population.

## INTEREST FREE LOANS CAN BE PROVIDED TO DEVELOPING COMMUNITIES

- Regions that have not yet earned “barter dollars” are able to acquire interest free loans which can be repaid through their own efforts.
- A use fee is charged to manage these loans and cover any defaults from the group of members.
- In a totally closed group little or no defaults can exist as the debtor would have no access to more “barter dollars” until the original balance was repaid through their own goods or services.

## SOLVES THE ISSUE OF LOCAL SCHOOLS, HOSPITALS, HEALTH SERVICES & SPORTING PROVIDERS ALL COMPETING FOR HARD CASH

- Volunteered hours or products/services become “bankable” and therefore tradable for goods or services which are not available from the local donor group

## LITTLE OR NO INFLATION IN THE CURRENCY

- Having multi-lateral barter overseen by the central government or bank as a service (and subject to a flat rate use fee) keeps money in circulation as the “fee to use” is generated solely from the labour of those using the currency, not as a result of banks printing more fiat money and causing a decrease in the value of the dollar.
- Inflation can be managed through adhering to a series of basic rules (ensuring that anyone who spends “barter dollars” has the ability to earn such dollars – through other members wishing to acquire their product or service)

Commodity money was introduced to 'simplify' the barter process and fiat money was introduced as a solution for the shortcomings found in commodity money however neither can compete against a currency issued by a local community and backed by a pre-determined range of commodities. **The bottom line is that when a community has its own multi-barter currency, people have a way of meeting their needs other than first having to earn scarce money.**

So how do we go about introducing multi-lateral barter at a grass-roots level?

The idea of introducing such a system may be daunting however there are many options and many multi-lateral barter systems operating today. Frequent flyer and other reward programs offer the chance to earn "points" or "air-miles" based on your previous spending with their organization and network of affiliates. Points can be redeemed for a variety of goods available through the network. Corporate barter exchanges offer more solutions, with a closed "mutual credit" type currency issued to members and valued against the local "government" sponsored currency. Grass roots currencies such as LETS Dollars or ITHACA/Maddison Hours offer exchanges based primarily on labour but have little or no product content.

So what are the steps we can take to have multi-lateral barter more widely accepted:

REPLACE MICRO-CREDIT WITH MULT-LATERAL BARTER

- Issue “barter dollar” overdrafts to developing communities which can be spent with anyone else in the local community.
- Make such “barter micro-loans” interest free and charge either a “per use” or annual/monthly transaction fee for the service.

#### INTRODUCE “TRADE VOLUNTEERISM” INTO LOCAL COMMUNITIES

- Trade volunteerism works on the basis of issuing “barter dollars” in return for volunteering within the local community. “Barter dollars” are redeemed by the recipient for the services of other volunteers in the area.
- “Barter dollars” can also be redeemed for goods or services donated to the community organization when money is scarce. *(Surplus goods are often easier to acquire for charities than hard cash. With a large enough member-base there is almost an infinite market for the goods donated).*
- Self-worth is realized in local communities as they ‘earn’ their way, get work-experience, or start home businesses on the strength of the local “barter dollar”.

#### HAVE NON-PROFIT ORGANISATIONS JOIN COMMERCIAL BARTER ORGANISATIONS

- Encourage non-profit organizations to join commercial barter organizations and have the members donate “barter dollars” in lieu of cash
- In commercial exchanges barter dollars are created from businesses surpluses. Once all expenses have been paid the incremental cost to create a dollar in selling unsold inventory or time is minor, so the donors can afford to give more in barter than they can in cash.

- Encourage commercial barter organizations to waive cash fees for non-profit enterprises and have the non-profit organizations actively promote the barter exchange in turn.

#### GET COMMERCIAL BARTER EXCHANGES TO INTER-TRADE WITH NON-COMMERCIAL 'GRASS ROOTS' ORGANISATIONS

- Commercial exchanges often have a large amount of product available - with many of the members wanting to trade surplus stock with one another. Other businesses may use a commercial exchange to "re-market" excess stock outside their normal customer-base to reduce the risk of devaluing their commodity.
- Non-Commercial exchanges (such as LETS or Green Dollar Exchanges) often have a large amount of labour available but little in the way of products. As commercial exchanges suffer from a lack of grass-roots items (produce, labour, electricity, accommodation) both exchanges can inter-connect and work towards resolving both their inherent problems.

#### ENCOURAGE DEVELOPING COMMUNITIES TO OPERATE A BARTER-BACKED CURRENCY

- Resource rich but cash poor areas are perfect for establishing a barter-backed currency.
- Through utilizing a universal barter currency (a currency which can be spent between barter exchanges) an under-developed community can purchase hardware, equipment or expertise from outside their area and repay it through goods or services generated as a result of the new input.

- Encourage the community to pay taxes in the new barter-backed currency with the local government utilizing the currency to acquire its goods or services from the local community.

#### HAVE LOCAL BANKS & CREDIT UNIONS OPERATE DUAL 'BARTER DOLLAR'/NATIONAL CURRENCY ACCOUNTS

- As more “barter dollars” are generated by the local community more wealth is created and, in turn, the system manager (bank/credit union) earns more fees from the new sustainable currency.

#### DE-LINK THE BARTER DOLLAR FROM NATIONAL CURRENCIES

- Set a “barter dollar” as an arbitrary unit. Value a range of goods and services against that arbitrary unit so that other members, in turn, can price their own products or services accordingly.

There are limited examples of non-currency-linked “barter dollars”. One such system has been in operation since 1934 in Switzerland and still operates to the present day, successfully encouraging trade and local wealth creation between approximately 70,000 participants. Another was developed shortly after World War II by an Austrian city that faced a rapidly devaluing local currency and introduced a local currency backed by a combination of city taxes and government owned businesses.

The benefits of establishing a large-scale barter system are numerous. The managers of such a system are able to implement a “service fee” to operate the exchange. As this fee can be spent with any of the members of the exchange

(or be billed to members in an external currency such as the US Dollar). The exchange operators can also recover their costs through annual or monthly service levies. Through the combination of “Trade Volunteerism” an exchange may operate in a local community entirely through having a service fee great enough to cover the management costs (paid in the barter currency) that it incurs.

Another benefit that an exchange operator faces is that it can act as a “retail” store and facilitator of trade between members. With some members acting as primary producers or wholesalers, and others as direct consumers, the exchange can purchase goods in bulk utilizing “barter dollars” then warehouse, re-price and onward-sell them in smaller units at a profit. Alternatively the exchange can encourage more retail outlets to engage in the community currency to perform this function.

Contrary to popular belief an area (city, country, town, community group etc) can have more than one exchange and THESE EXCHANGES DO NOT HAVE TO BE MANAGED BY A CENTRAL AUTHORITY.

Where some form of inter-exchange of the “barter currencies” is agreed upon there is a very real possibility of many exchanges co-existing and inter-trading goods and services through independent currencies. The downside to this method of operation is that each system must manage “foreign currency”, with a rate of exchange being agreed upon by all barter groups. If the exchange rate varies between three or more barter exchanges then it is theoretically possible for a ‘black market’ exchange of currency to occur, with currency being swapped at less than the official rate. Whether this is a bad idea or simply the “free market” in action is another topic entirely.

Managing such a system is very possible but becomes more complex as more barter groups develop, each with their own currency. Without proper systems in place to track “balance of trades” between barter operators there exists a possibility of one or more improperly managed groups creating inflation in another barter organization – causing it to collapse as its currency becomes worthless for ‘local’ financial interactions.

Several tools are available for the implementation of multi-lateral barter-backed currency systems. The largest and most complete of these is offered by a New Zealand based company called XO Limited ([www.barter-software.com](http://www.barter-software.com)) which develops and maintains an entire turn-key banking platform (EFTPOS, Phone Banking, SMS/TXT Banking, Internet Banking and e-commerce, inter-exchange (forex) transactions all rolled into one system) for alternative currencies.

The Dutch non-profit group, Strohalp, has developed a more basic “online only” software product called Cyclos. Another group, SANE, develops a similar software system from its base in South Africa, allowing some inter-exchange of currencies between multiple barter organizations.

More basic systems includes CC-LITE, written by Hugh Barnard and Time-Bank (written exclusively for time-backed currencies by Kent Gordon). The pitfall of some of the smaller systems may be the lack of development resource, ongoing support and/or inflexibility for inter-exchange trades. There are also arguments that open-source “barter currency” systems may run the risk of calculation errors or, worse, fraud - based on a third-party programmer (accidentally or deliberately) in an imbalance between the currency. (In any stable barter system all accounts in an exchange can be totaled to add up to zero. If this is not the case then inflation may ensue).

Regardless of the developer – each offers their products free of charge to non-profit organizations - with XO recouping its costs by levying a small transaction fee of half a percent of the value of each transaction to “fee charging” exchanges. (The fee charging exchange typically charges their own members anything from 3% to 5% of transaction, thus enabling them to make money which can be utilized to pay for staff and overheads in managing the exchange and recruiting new members.)

### **About XO Limited**

Founded in 2002, XO is the worlds largest developer of barter, counter-trade and alternative currency systems. The company offers a neutral Internet based platform that enables traders to trade with one another using "virtual" and community barter currencies through electronic and traditional means. XO's systems are designed to enable currency issuers and barter operators to reduce their costs whilst increasing their overall trade volumes. Some of the key functionalities of their trading platform includes: a universal currency, Internet banking, TXT/SMS banking, internet trading (buy and sell online), IVR (telephone) banking, EFTPOS (electronic point of sale) cards and direct interfaces with traditional banking methods. Additionally, the XO software systems are written to enable the barter exchange operator direct access to their customer base via the Internet, with data able to be accessed and downloaded into common Microsoft and third party applications. The company has the largest team of software developers specializing in barter exchange and alternate currency systems anywhere in the world.

### **About Ozone Barter**

Ozone Barter is a franchise brand of XO Limited with offices in South Africa, Singapore, Australia and New Zealand. It is also the only Australian and New Zealand Company to operate a 24 hour/7 day a week trading call-centre for its members.

Established in December 2003 by XO Limited, Ozone has experienced rapid growth with a membership base exceeding 5,000 businesses. Ozone's home page address on the World Wide Web is <http://www.ozonebarter.com>. Ozone barter franchises are available world-wide starting at \$5,000 USD for a country license.

### **Contact Details for Article**

Article prepared by XO Limited. For hardcopy of the press release and further enquiries, please do not hesitate to contact:

Daniel Evans

XO Limited

T: +64 9 9156873

F: +64 9 9199080

M: +64 21 2028510

E: [daniel.evans@barter-software.com](mailto:daniel.evans@barter-software.com)