

A Commentary on Trade Systems in General And The American Trade System in Particular

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Introduction

In 1934, a group of Swiss business people organized a trade system, called WIR, to help their businesses survive the Great Depression. WIR was not only successful in that respect, but it has survived to the present and thrived because the system provides benefits beyond cushioning its members from economic downturns.

Ezio Valentini, a businessman who has conducted business in Europe and the U.S. for many years, has undertaken the task of bringing a similar operation to America by establishing the American Trade System. He is also a partner in a European organization that has the objective of bringing a similar operation to the 22 countries that have the Euro as their official currency. Another member of that partnership is Bernard Lietaer, a world-renowned expert on banking, finance and monetary matters. While he was with the Belgian Reserve Bank he co-authored the conversion mechanism to the Euro.

This short paper discusses this trade system concept.

The Trade System Concept

From an economic perspective, the trade system provides a medium of exchange.

In general, a medium of exchange facilitates trade. Money is the most well-recognized medium of exchange. It facilitates trade by mitigating the so-called “double coincidence of wants problem.” The problem is, the buyer must want what the seller has for trade to occur, but the seller must also have what the buyer wants. It is this problem that makes barter difficult and makes money useful. As long as sellers accept money in exchange, only a “single coincidence of wants” is necessary for trade to occur: The buyer with money only needs to want what the seller has, for the seller will accept the buyer’s money.

A modern trade system provides an additional medium of exchange by introducing an electronic form of money and acting as a clearinghouse. A seller delivers goods to a buyer, and receives, as payment, a combination of cash and an electronic dollar-denominated trade credit. The seller then uses the trade credits, together with cash, to buy from other participants in the system.

Coordinating the Trade

A challenge for the modern trade system is coordinating the trades of participants, a challenge faced by any market trading system.

Leon Walras (1824-1910) was the first economist to carefully consider the characteristics of a “general equilibrium” in a market, where the desired actions of all buyers and sellers are simultaneously coordinated. Gerard Debreu, in his *Theory of Value* (1959), carefully demonstrated that a price system can coordinate trade in this manner. It has become generally accepted understanding that surpluses and shortages do not long persist in real world market economic systems because they are eliminated by price adjustments.

Because a trade system is a market system within a larger market system, the national economy, the prices in the larger market system facilitate trade coordination, but additional trade coordination mechanisms may also be necessary within the trade system. Clearly, transactions within the trade system must take place at prices close to those in the larger market system, or one of the two parties would not find the trade mutually beneficial. However, because the trade system does not include the whole market, the set of prices that clear the larger market will almost surely leave surpluses and shortages within the system to some degree. So, the trade system must take additional steps to coordinate trade.

The typical sale within the trade system takes place on a part cash (i.e., national currency is used) and part trade credit (i.e. trade system’s currency is used) basis, and alterations in the ratio between the two can help reduce surpluses or shortages within the system. If one service or product is found to be in particular demand within the trade system, so that firms providing the product or service are accumulating more of the trade system’s currency than they can reasonably be expected to spend, then the trade system may adjust matters so on future sales the firms take in a higher percentage of cash and a lower percentage of the trade system’s currency.

The adjustments a trade system will need to make to effectively coordinate trade among its members will be minimal if its membership is in some sense representative of the larger market economy. This is not to say that the trade system must include a particular distribution of firms from all industries. However, there must be enough diversity that those obtaining trade credit by making sales can find a way to effectively spend the credits.

The Swiss WIRBank Trade System has demonstrated that a trade system can meet the coordination challenge if two criteria are met. First, the typical firm in the trade system should have excess capacity (i.e., unsold inventory, unused productive capability, unused ability to service additional customers), or have a flexible ability to produce. This helps prevent shortages from arising within the trade system. Second, the goods and services needed by the typical firm should be readily identifiable. This allows the trade system to seek out other members, whose productive capabilities match these needs, providing a rough balance between supply and demand. Finally, the ability of a member to hold credit in the trade system as an asset and the ability to obtain loans from the trade system implies supply need not equal demand over shorter time periods.

Dual Currency Issues

By offering an additional medium of exchange, the trade system in essence provides a new currency that complements the existing currency, and these mediums will compete. Because the trade system's electronic currency can only be used to purchase goods and services from members of the trade system, whereas the existing national currency can be used more generally, sellers will prefer the existing currency unless the complementary currency has offsetting advantages.

While using the trade system's currency does have advantages, and these are presented in the next section, the circulation of trade system's currency is ensured by requiring members to use the trade system's currency to a degree. That is, accepting and spending the trade system currency is part of the commitment to the trade system.

Value-creating properties of the ATS Trade System to Members

For the American Trade System to profitably attract members and persist, it must provide value to its customers, as must any business. What value is provided to members by a trading system?

The Trade System provides a stable customer base. Firms with ATS dollars are motivated to look first to buy from firms that will accept ATS dollars. It is this security characteristic that motivated the creation of the WIR Trade System in Switzerland during the Great Depression. Additionally, the willingness to accept ATS dollars is equivalent to very effective, targeted advertising. This advertising effect allows participants in the trade system to increase the demand for their products without lowering the product price, which is what effective advertising accomplishes. The resulting increase in sales increases profitability. Thus, the trade system creates value for its members by providing a competitive edge relative to companies that cannot accept the AT dollar.

The Trade System makes illiquid assets liquid. The trade system provides members with an additional source of credit, particularly beneficial in tough times, when obtaining purchasing power in the more typical ways is difficult. ATC members may obtain AT dollar purchasing power by putting up a less liquid asset as security. While the AT dollar is not as liquid as cash, in that the AT dollar will only be accepted by other trade system members, it is much more liquid than the assets a trade system member may put up as security, including a personal guarantee, a corporate guarantee, a promissory note, a due bill, equipment, inventory, and real property. The trade system creates value for its participants by providing the ability to turn a less liquid asset into a more liquid asset.

Reduce interest costs by replacing cash loans with ATS loans. To fund a cash loan, a bank must obtain the cash to make the loan. Obtaining this cash costs the bank money because someone else somewhere must be setting that money aside as savings. This is not true for an AT loan. AT credit is obtained by providing some valuable asset in exchange as security, just as it might be done with a conventional collateralized loan. However, no one has to sacrifice saving for the AT dollar to be obtained by the trade system. The ATS loan merely represents the value placed on the asset securing the loan, and the total

amount of AT dollars in existence at any given time is equal to the total value of the assets securing the AT dollars loaned. Whenever borrowed AT dollars are repaid, the security is released and the number of AT dollars in the system decreases. So, in essence, and AT loan involves temporarily trading away a less liquid asset for a more liquid asset, and matters are restored by reversing the trade. Not having to seek out savers allows AT loans to be offered at a much lower interest rate than the typical cash loan. Thus, the trade system creates value for its members by providing a means for reducing borrowing costs.

The trade system provides an extra means of monetizing unsold and unused capacity and/or inventory. As mentioned in the previous paragraph, Members are motivated to use their trade credit to purchase the products from other members of the trade system, providing one means to monetization not available outside the trade system. However, the unsold and unused capacity and/or inventory can also be used to repay a loan obtained from the trade system. This also is a means to monetize real estate interests.

Additional Detailed Information

The Swiss trade system has been examined in some detail. Examples include:

- In 1994, an article appeared in *WIR Magazin* written by Heidi Defila, a former Vice President of WIR, entitled “60 Years of the WIR Economic Circle Cooperative”, outlining the history and evolution of the WIR Bank. It includes the challenges faced along the way and how they were overcome.
<http://projects.exeter.ac.uk/RDavies/arian/wir.html>
- In 1998 Dr. Tobias Studer, a Professor of Economics at Basel University, published a 58-page report titled “WIR and the Swiss National Economy” describing in detail the working of the co-operative System and its credit operation.
http://www.atcoop.com/WIR_and_the_Swiss_National_Economy.pdf
- In 2000, James Stodder an economics professor at Rensselaer Polytechnic Institute at Hartford completed a two-year, study on exchange systems titled “Reciprocal Exchange Networks: Implications for Macroeconomic Stability”. This report outlines the market penetration achieved by the WIR co-operative in that country.
<http://www.rh.edu/~stodder/RecX.htm>
- In 2007, Professor Stodder published another 31-page report “Residual Barter Networks and Macro-Economic Stability: Switzerland’s Wirtschaftkring”
http://www.lietaer.com/images/Stodder_WIR_paper2009.pdf, which is scheduled for publication in the *Journal of Economic Behavior and Organization*. This paper emphasizes that, as the WIR solves exchange problem with virtual money, it also helps stabilize the economy by providing firms in the trade system with more ability to trade in down economic times that they would otherwise possess.
- In 2008, "How Businesses Can Save Themselves from the Impact of the Banking Crisis" A One pager on the Business-to-Business (B2B) Currency solution by Bernard Lietaer. http://www.atcoop.com/Bernard_Lietaer_1pg.pdf www.lietaer.com

Conclusion

The 75-year existence of the Swiss trade system, its growth, and the theory outlined in this short paper, provide reason to believe that the American Trade System is a viable concept. Indeed, modern Internet technology and high speed, low cost computing makes the concept much more viable today. The American Trade System is designed in a way that can be implemented in the American marketplace, providing value to members in the form of effective marketing, a more stable customer base, and an additional source of credit. Finally, if the trade system grows to a significant size, there is evidence that it can provide counter cyclical spending that will help insulate the economy from economic downturns.

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