

Switzerland's WIR System and Barter Worldwide

by Ezio Valentini

The History of Barter

People and businesses have bartered since before money was invented. Organized barter, trading with the participation of an exchange system, originated in Scandinavia after WWI.

In 1934, during very difficult economic times, a group of business owners in Switzerland organized an economic circle cooperative, another term for a barter exchange, called WIR, the German word for "we". It met with immediate success and today is the oldest and most successful barter system in the world.

In the US, the first barter exchanges were formed in the 60s. During the 60s and 70s barter operators marketed their exchanges by presenting and promoting barter as a way to do business without paying taxes.

Eventually the regulators became involved and a number of people were convicted on tax charges and, in 1983, an IRS ruling declared that barter dollars were taxable as US dollars. About the same time another ruling declared that barter exchanges were authorized third-party record keepers.

During this period the two industry associations were created, IRTA, the International Reciprocal Trade Association, international in scope, and NATE, the National Association Trade Exchanges, a national organization.

At that time the intent was for the industry to self-regulate and two of the industry's pioneers, Art Goehring and Paul Suplizio drafted a provision, called IRTA's Regulation One, which required, among other things, that each barter system submit an annual "balance" report to insure fiscal balance and the system's integrity by establishing accounting and transparency standards.

Regulation One quickly went by the wayside and, as new barter exchanges were formed, they adopted and included in their membership agreements, a provision called the "borrow and spend clause" which gives the exchange's operator carte blanche to borrow, by issuing to him/herself trade dollars used to purchase goods and services from the system.

Barter exchanges are simply banks where deposits and withdrawals are made with goods and services instead of cash. Exchanges also, like banks, extend credit. Who would join a bank where the manager can indiscriminately take from the bank and not be accountable?

This and other forms of abuse cause large deficits, which leads to currency inflation, which inevitably leads to inflation's by-product, the Discount Trade or Black Market.

The WIR System (<http://www.wir.ch/>)

Success for WIR did not come easy, as it encountered serious difficulties along the way. Fortunately, the system was able to make the adjustments needed to survive and thrive.

WIR's history and major events are outlined in an article that appeared in WIR Magazine in 1994 by Heidi Defila, "60 Years of the WIR Economic Circle Cooperative" translated by Thomas Greco. Mr. Greco is an alternative currencies author and authority who serves on our company's Advisory Board. Link: <http://www.ex.ac.uk/~RDavies/arian/wir.html>

WIR suffered from the same ailments that virtually all barter systems experience, specifically, the two main problems:

1. Barter currency inflation
2. The Discount Trade of barter currency

During an economic downturn the WIR System suffered a drop in volume and WIR operators reacted, and tried to boost volume, by lowering the standards in their credit extension policies and making interest-free loans to its members.

This resulted in the WIR currency becoming inflated and, as a result, its value and spendability decreased. This, in return, resulted in the second problem: the Discount Trade. Owners of large amounts of currency, unable to spend in the system, began offering it for sale for cash and a black market on WIR Francs developed.

This almost destroyed the system, however, WIR survived because of the foresight, integrity and determination of a small group of people who were successful in bringing about two major changes:

1. The "rehabilitation" of the system which included a total change of management and a 95% devaluation of its currency.
2. The eradication of the Discount Trade by making it against the rules to buy or sell, for cash, the WIR Franc.

Those two changes resulted in a membership increase from 20,000 to 75,000 and enormous volume increases.

In the article, Heidi Davila states:

“Fighting the Discount Trade. During the fifties and sixties the organization experienced a meteoric upward trend. Unfortunately, the WIR-circles were not spared the negative side-effects of boom mentality and self-interest. The trading of WIR credits at a discount, especially, became a question of viability for the WIR clearing system. Fortunately, both the board of directors and the management had the courage to take effective measures against the excesses. They faced the resistance of Obusiness circles profiting from the discount trade, some of which were old members of the cooperative. Board and management had the courage to accept a decrease in turnover, and to put qualitative thinking above quantitative thinking. The measures were sanctioned by a memorable extraordinary general assembly in the fall of 1973”.

James Stodder, a professor at Rensselaer at Hartford, a prestigious economic and technology institution, has researched WIR for several years and also researched the North American barter industry. Dr Stodder published the results in a white paper, “Reciprocal Exchange Networks: Implications for Macroeconomic Stability”. Link: <http://www.rh.edu/~stodder/RecX.htm>

The research compared WIR with the statistics provided by IRTA on the estimated volume done by US barter exchanges and corporate barter companies. The conclusion was that WIR's volume dwarfed that of the entire North America barter industry.

In the study's “Conclusions and Implications” Dr. Stodder states:

“The totality of the US barter exchanges is far smaller than WIR, both absolutely and relative to the national economy”.

A barter system in a country of 7 million people outperformed ALL American barter exchanges and corporate barter companies combined. IRTA was the only entity, other than WIR, whose statistics were used in this very important and historic study.

It is unfortunate that the researcher was so focused on comparing the two to prove that the barter business is counter-cyclical to the national economy and its effects on employment and inventories. The white paper failed to research and determine WHY the Swiss system was so successful while the rest of the industry has failed to break into mainstream business and generally not viewed as a legitimate industry.

The research paper by Dr. Stodder was reviewed in WIRPlus Magazine by Professor Tobias Studer, of the Center of Economic Studies of Basel University, Switzerland, "Research Paper by Dr. James Stodder Reviewed in WIRPlus Magazine" Link: <http://www.rh.edu/news/news01/stodderpub.html>

It is interesting, and it leads to questions, as to why IRTA and BarterNews have made no mention of the white paper report in which IRTA figured so prominently. In fact, IRTA's leadership, over the years, has totally ignored WIR although they are very familiar with the existence and success of WIR.

Today, WIR has 85,000 clients, or 20% of all Swiss businesses and the system does enormous volume. In a country with only 7 million people the WIR System has, as members, 1164 real estate companies who routinely use the WIR currency, as part of the consideration, in real estate transactions.

WIR has successfully developed and marketed "blend loans", in its lending practices. They are loans funded partly with Swiss Francs and in part with WIR Francs.

WIR has never had any interest in expanding internationally and restricts its operation to inside the Swiss borders and exclusively for Swiss companies and individuals. It has no relationship with any barter entity outside Switzerland, in fact, until the Internet, WIR was pretty much a well kept secret outside its country.

Personally, I first became aware of WIR, at age 18, in 1955 while serving an internship at a hotel in Lugano, Switzerland that happened to be a WIR member. Part of the pay employees received was in the form of WIR Francs, also referred to as "the other money". I used it to purchase products and services from participating businesses.

(Note: WIR's website is published in French, German and Italian. www.altavista.com can be used to translate, but it has limitations.)

Barter Worldwide

As barter evolved in the US, people in other countries became interested and there was only one place for information how to start and run a barter exchange: IRTA, the self-professed international authority on the subject. Barter companies in Canada, Australia, New Zealand, Mexico and other countries including many in Europe adopted the methods advocated by IRTA and, like their counterparts in the US, have failed to achieve significant success and recognition.

This is the primary reason why barter has less than 1% penetration in the business community worldwide while one in five businesses in Switzerland uses a barter system to increase commerce and profits.

The WIR Franc is the perfect example of a complimentary currency, designed to work in conjunction, and not as an alternative, to the national currency.

Ezio Valentini, and his partner Rebecca Valentini are the owners and operators of the International Trade Currency System (ITC), a combination trading system and real estate company. For more information visit <http://www.itcssystem.com/> and <http://www.ireex.com/> or contact us at 775-852-6280 / email: ezio@itcssystem.com