

Economics Outside The Box

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Non-Financial Trends



National Emblem of Thailand

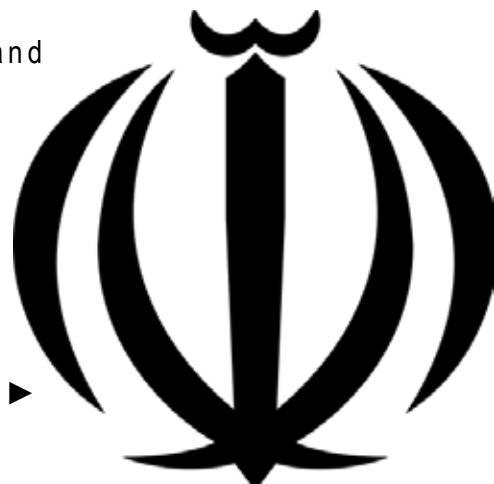


◀ Iran is sending Oil to Thailand



▶ Thailand is sending rice to Iran

■ No money is being exchanged ■



Coat of Arms of Iran

Unable to find credit to facilitate the trade of food and energy was like a dark cloud —until Thailand and Iran decided to trade anyway.

Without using the financial system a significant cost savings emerges. There are no letter of credit fees, no banking costs in creating the money to buy each other's products, no time wasted waiting for bankers, no trade disruption from currency speculators and a deal insulated from commodity speculators. By avoiding the financial system in this nation to nation deal, tens of millions of dollars will be saved that can be used for other purposes in their respective national economies.

What seemed like a dark cloud at first has turned into a ray of hope.

The financial industry and speculators have brought destabilizing influences on national and global economies. This destabilization arises, in part, from saturating the economy with unmanageable debts in order to create and distribute money. It arises from creating higher value collateral (to support money creation and distribution) by urbanizing farmland via unsustainable housing booms resulting in food austerity. It arises from commodity speculation that externalizes billions from affordable food and energy.

In spite of these excesses, the financial industry is getting rewarded with access to massive infusions of capital from the public purse. For \$700 billion, the world could create new mechanisms of exchange less costly and more efficient for the physical economy than the financial industry's money products.

The recent awakening by Thailand and Iran, to turn to a barter trade for lack of a financial system able to facilitate their trade needs, exposes the limitations of using credit (money) to facilitate economic activity.

At stake between the Thailand and Iran trade is one million tonnes of rice and a commensurate value of oil.

The financial industry, by virtue of its unfolding ineffectiveness, may lose a whole lot more than just a few hundred billion from non-performing loans — it may find its money products losing market share to other mechanisms of exchange. The physical economy is not going to wait forever for the financial industry to get its act together. Every month of economic sluggishness and decline that goes by carries the risk that other exchange alternatives may permanently capture economic sectors historically the domain of the financial industry's money products.

The willingness to trade directly, rather than each nation trying to facilitate a purchase using credit (money) poses a serious question: Is the physical economy better off expanding trade over making purchases that require credit (money)? Money is an intermediary whose drain on the physical economy in terms of debt build-up and interest costs is colossal. ▶

“Credit and liquidity are nowhere to be found anyway, so a simplification in trade such as this (Thailand/Iran deal) is logical. Government-to-government deals will increase in number. The lack of credit for trade could lead also to a resurgence of barter deals between countries.”

— Concepción Calpe Senior economist, UN Food and Agriculture Organization

A trade, such as between Thailand and Iran, avoids many of the costs and pitfalls associated with the process of each purchasing from the other using the financial system to do so.

Assuming a trade of 1 million metric tonnes of rice and a commensurate amount of oil, this movement of goods does not need letters of credit. (A letter of credit, for example, would be a guarantee by a Thailand bank that Iran will get paid when the oil arrives in Thailand). Instead, it just needs faith each party will deliver what it is supposed to. At a world price of \$500 per tonne of rice, the deal is conceptually worth \$1 billion (\$500 million in rice and \$500 million in oil). Under the old system, each country had to qualify for \$500 million in letters of credit for a total of \$1 billion.

Some banks are now charging fees from 3 percent to 4 percent of the face amount of a letter of credit. Using a 3 percent fee structure, Thailand and Iran save \$30 million by bartering rather than purchasing. In addition, if the banking system had to create \$1 billion for 90 days to facilitate the purchase of the oil and rice by exporting companies, 5 percent interest on \$1 billion for 90 days would have cost another \$12 million.

There is tremendous risk in buying and selling internationally as currencies fluctuate relative to each other. In a barter deal, the currency question is eliminated and there are no concerns over trade deficits or surpluses.

Grains (including rice) and oil futures are speculatively traded which can make a mockery out of the work and natural resources that goes into both rice and oil. This speculation has contributed to the global awareness of the need for fair-trade products. Rather than destabilizing the economics of the hands and natural resources that produce a product, a diplomatic agreement, as to what is fair, helps protect all parties — a very effective tool of “value discovery” as opposed to “price discovery.”

Rather than waiting for banks to make decisions, decisions that often result in a decline, the world can keep going and, in the case of the world's hungry, Thailand has oil to produce rice. Deals like the one between Thailand and Iran, can be replicated internationally and within the economies of individual nation states.

The term barter is too often associated with the one-on-one barter of centuries past — signifying obsolescence. Today we are in the information age. There is no limit to the complexity of trades that can be accomplished. For example, by knowing who needs what, the trade between Thailand and Iran could have been indirectly accomplished while a dozen or more other deals were accomplished at the same time.

Non-Financial Trends - Thomas Greco

Globally, reciprocal trading between individuals, companies, countries and large companies with countries is already in the trillions of dollars. The world is not through when it comes to exploring alternative mechanisms of exchange. On the contrary, it is just beginning.

Monetary researcher Thomas Greco is author of *Money: Understanding and Creating Alternatives to Legal Tender* (2001), *New Money for Healthy Communities* (1994) and *Money and Debt: A Solution to the Global Crisis* (1990). Greco is coming out with a new book titled *The End of Money and the Future of Civilization*. Greco, in a recent correspondence *Touch the Soil*, explained:

“My new book will not be out until March or April (2009) ... I want you to be aware that it contains what I consider an optimal design for a mutual credit clearing association that can enable economic exchange to continue despite the turmoil involving the global financial regime. It requires no reform of the system, no new legislation, but can be implemented by voluntary initiative of all sorts of affinity groups and local entities. These might then be easily networked together to create a wide area exchange system of significant scale and scope.”

Non-Financial Trends - Bob Meyer

The concept of reciprocity — is key to bartering. Rather than one-way trades, reciprocity engages the community to work together for its mutual economic health. Whether it is a community of business people or a community of citizens, reciprocity represents a step up from the excesses of debilitating competition.

As businesses and individuals look more to non-financial trends, there is already a large community out there that has been active in facilitating economic activity outside financial limitations — commercial reciprocal trade. Bob Meyer, has been acknowledged within the commercial barter industry for his contributions with numerous awards for his efforts. He is the founder of Barter News and its editor since 1979. (Bob Meyer was featured in the November/December 2007 issue of *Touch the Soil*).

Meyer, through BarterNews (the official Journal of the Reciprocal Trade Industry), provides information products on reciprocal trade and a weekly e-newsletter called the Tuesday Report. Recently, BarterNews teamed up with David Cooper of iTV Network to bring a weekly barter TV show via the internet to the public.

Interested parties can visit the BarterNews Web site to sign up for the Tuesday Report and to sign up for notifications of the iTV weekly barter show.

The Iran - Thailand trade sets a positive example in a world wrestling with financial inadequacies. It means the physical economy can have some life of its own using information. ■



Photo - Courtesy of Thomas Greco

Thomas Greco's new book: *The End of Money and the Future of Civilization* is being published by Chelsea Green within the next few months.

Interested parties are invited to visit his Web sites:

www.reinventingmoney.com
<http://beyondmoney.net>

Mr. Greco holds an MBA (Business Administration) from the University of Rochester and a Bachelor's degree in Chemical Engineering from Villanova University.

His work experience includes 5 years as an aerospace engineer and 14 years in academia, mainly at Rochester Institute of Technology, where he held a tenured faculty position. His expertise includes monetary theory, complementary currency and exchange systems.



Photo - Courtesy of Bob Meyer

More information on Bob Meyer and BarterNews can be found at:

www.barternews.com

Meyer has received numerous awards including:

1) Outstanding Achievement Award from the International Reciprocal Trade Association - 9/23/08

2) Lifetime Achievement Award from the National Association of Trade Exchanges - 9/10/04.

3) A charter inductee into the International Reciprocal Trade Association's "Barter Hall of Fame," 9/26/97

4) Distinguished Service Award from the International Reciprocal Trade Association - 5/13/85 & 10/18/91.