SKILL GUIDE · ECONOMIC & FINANCIAL

Barter & Local Trade Systems

The Economic & Financial chapter's Barter Negotiation and Skill Valuation items cover trading fairly and valuing skills directly. This guide goes deeper: what real historical barter and local-currency systems reveal about how trade actually organizes itself when normal money breaks down, and where they tend to fail.

What a real economy without functioning money looks like

Economist R.A. Radford was a prisoner of war during World War II, and his 1945 paper on the camp's internal economy is one of the most cited real-world studies of emergent trade. Cigarettes became the camp's currency, not by decree, but because they were divisible, widely wanted, and reasonably durable. A camp "shop" ran fixed prices, and an informal notice board (the "Exchange and Mart") let prices move with supply and demand in real time. The economy showed real inflation and deflation tracking Red Cross parcel shipments, hoarding of higher-quality cigarette brands (a real-world case of Gresham's Law, "bad money drives out good"), and, most tellingly, a paper-scrip currency the camp tried introducing (the "Bully Mark") collapsed when trust in it broke down, while the cigarette-based commodity currency kept working because cigarettes had value on their own, not just as a symbol of value.

The lesson that carries forward

A trade good that has real, independent use value survives a trust collapse in a way a symbolic currency (paper, a ledger entry, a promise) doesn't. This is the same logic behind stocking broadly recognized, high-demand barter goods rather than relying only on cash.

Local currencies and time-banking: real systems, and why most declined

System	How it worked	What happened to it
Ithaca HOURS (Ithaca, NY, founded 1991)	A local paper currency, 1 HOUR equal to $10, meant to keep spending circulating locally	Grew to real circulation (tens of thousands of dollars, hundreds of participating businesses at its peak) but declined after its founder stepped back and consumer credit cards became more convenient; effectively inactive by the mid-2010s despite a 2019 attempt to revive it digitally
TimeBanks (TimeBanks.org, founded by Edgar Cahn)	Hour-for-hour credit for any task, regardless of the task's market value	Still active in various local forms; Japan's Fureai Kippu program applies the same model specifically to elder care and has over 300 participating nonprofit organizations
LETS (Local Exchange Trading Systems, originated Comox Valley, BC, 1983)	A mutual-credit ledger system with no physical currency at all, credits and debits tracked centrally	Grew to roughly 350 networks and 30,000 members in the UK by 1995, then declined, partly from being slow to move online, and partly the same founder-dependency pattern as Ithaca HOURS

The common thread in both declines: a local currency or trade network tends to depend heavily on one or two committed organizers, and struggles to survive their departure or a more convenient mainstream alternative appearing. A durable barter or trade system needs more than one person who understands and maintains it.

What real economic collapses show about barter

- **Weimar Germany, 1923:** during the hyperinflation, professionals like doctors were sometimes paid directly in firewood or potatoes rather than a currency losing value by the hour.
- **Post-WWII Germany, 1945-1948:** cigarettes again became a de facto currency, with a single cigarette trading for roughly 15-20 Reichsmarks on the black market, evidence this pattern isn't unique to a POW camp.
- **Argentina, 2001 economic collapse:** barter clubs ("clubes de trueque") grew to an estimated 4-7 million participants at their peak, organized around a credit unit called a "crédito." The system eventually collapsed from its own internal over-issuance of créditos, effectively an internal hyperinflation, and some organizers were later arrested for fraud.

WARNING

A barter or credit system needs the same discipline as real money

Argentina's collapse is the clearest warning: any credit-based trade system (time-based, crédito-based, or otherwise) needs real limits on how much credit gets issued, or it can inflate itself into worthlessness exactly the way a currency does. This isn't a reason to avoid trade networks, but a reason to keep them small, transparent, and disciplined rather than assuming a barter system is automatically immune to inflation just because it isn't official money.

The tax rules still apply

Bartering is taxable income in the U.S. regardless of whether any cash changes hands; the IRS treats the fair market value of goods or services received in trade the same as if you'd been paid in dollars (IRS Topic 420). A few practical distinctions matter:

- Organized barter exchanges are required to file Form 1099-B for their members' transactions.
- An informal trade rises to a reporting requirement (Form 1099-NEC) when a business pays $600 or more to the same person in a year, a threshold rising to $2,000 starting January 1, 2026 under the One Big Beautiful Bill Act.
- Casual, informal neighbor-to-neighbor bartering, the IRS's own example is a babysitting co-op, is explicitly exempted from the exchange-reporting regime, though it's technically still taxable income if it rises to the level of a trade or business.

Sources

- R.A. Radford, "The Economic Organisation of a P.O.W. Camp," *Economica*, 1945
- Ithaca HOURS history and circulation figures: Donella Meadows Institute; contemporary local-currency research literature
- TimeBanks.org; Fureai Kippu program documentation (Japan)
- LETS origin and UK network figures: Michael Linton, LETSystem documentation; UK local-currency research literature
- Weimar Germany and post-WWII German "cigarette economy": historical economic literature on both hyperinflation periods
- Argentina 2001 "clubes de trueque": contemporary reporting and post-collapse economic analysis
- Barter tax treatment: IRS Topic 420, Bartering Income; 1099-NEC reporting threshold change under the One Big Beautiful Bill Act