

Local Exchange Trading Systems (LETS): An introduction and evaluation of the challenges to accounting

Jan Bebbington¹

Abstract

This paper seeks to introduce LETS and to suggest that they raise a number of significant questions for accounting and finance. This introduction is set within the context of society's pursuit of sustainable development, with LETS being one way in which marginalised communities may take back control over their economic circumstances. Briefly, LETS are exchange schemes which fall outside of the traditional money economy. Membership of a LETS enables you to buy and sell goods and services without using cash. Rather, the particular LETS currency is used in a 'virtual' sense, usually with LETS cheques being exchanged or with LETS tokens being used as money. Exchanges are recorded by the LETS 'bank' to whom system participants are either a debtor or a creditor (see, Robertson, 1999). LETS also have a number of other characteristics (which are at odds with conventional finance) which will be reviewed in this paper. Once LETS have been introduced the paper seeks to sketch a research programme for the investigation of the implications which arise from LETS for accounting practice. Further, how LETS (and indeed other forms of alternative money) impact on our understanding of money and how it may operate within an economy is also investigated. This last point will have implications for the theory and practice of accounting and finance.

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¹ Jan Bebbington is Professor of Accountancy at the University of Aberdeen. She can be contacted at Department of Accountancy, Edward Wright Building, Dunbar Street, Old Aberdeen, AB24 3QY, Scotland or at j.bebbington@abdn.ac.uk.

1.0 Introduction

This paper is more of the nature of a thought piece than a fully developed empirical investigation of LETS and other alternative forms of money. As such, the paper sketches a domain of possible future investigation and attempts to imagine a research agenda which would enable the investigation of this area. This task is attempted in a number of stages. Section 2 briefly introduces the idea that money encompasses a broader range of exchange and value instruments than notes, coins, bank deposits and other financial assets. In particular, this section will introduce some alternative forms of money which are presently being used within various 'modern' capitalist societies (the study of modes of exchange within indigenous culture and non-capitalist societies does not fall within the scope of this paper). Section 3 contain a brief, but necessary, diversion to consider the sustainable development agenda and its message for (particularly local) economic development. This paper sets the alternative money material within the context of the re-envisioning of economic relations in accordance with the principles of sustainable development. In this manner, the sustainable development agenda provides both a rationale for an investigation of alternative monies as well as a criteria by which to evaluate alternative monies. Section 4 narrows the focus of investigation to LETS in particular with the characteristics of LETS schemes being sketched. At present this part of the paper is very underdeveloped, however, during the summer of 2000 this work will be progressing and it is envisaged that there will be material to bring to the conference which will address some of these issues. Section 5 sketches a research agenda for LETS (and perhaps for other alternative forms on money). Finally, some concluding remarks are made.

2.0 Alternative forms of money

In a common sense way we all think we 'know' what money is. That is we think of money as being notes and coins and other bits of paper or plastic which we accept as 'stand-ins' for money (cheques and credit cards being simple examples). This section, however, seeks to disabuse you of this narrow understanding of money and seeks to outline various systems of exchange which could be seen to be dealing in money, but in a form of money which we are mostly unfamiliar with.

Douthwaite (1999) suggests that money has three functions (see Table One left hand side). Taking these three functions, the items outlined in Table One (right hand side) could legitimately be considered to be money.

Table One: The function of money and possible forms of money	
The function of money (Douthwaite, 1999 p.11-12).	Possible forms of money
1. A medium of payment of exchange – that is generally acceptable and has a high value for its weight (so it is easily transferable) ... it must be divisible ... enough of it around (so that people can buy and sell easily should they wish to) ... but not so much that people will lose their confidence in it.	< Cigarettes (which were used in prisoner of war camps as a medium of exchange) < Frequent flier cards/accounts (and indeed any other loyalty scheme) whereby, once sufficient credits are obtained, points which can be redeemed for goods and/or services. < Book and gift tokens.
2. A Store of Value –so that if you are receiving money you will be able to use it to purchase the same amount of goods and services regardless of when you spend it.	< Postage stamps, basketball cards and other collectibles. < Poker chips and other forms of institutional ‘money’ ² which may be exchanged into conventional money.
3. A Unit of Account – to enable you to keep financial records (the accounting) and to quote prices. This encompasses McGoun’s (1997) “medium of settlement, medium of account and unit of account” (p.99).	< Beads on a necklace at a ‘club med’ type resort which can be exchanged for drinks. < Time dollars (see Cahn and Rowe, 1992). < Local ‘invented’ currencies (such as Ithaca dollars – see Boyle, 199, pp. 102-132). < Product entitlements (issued at a discount) for specific time periods (usually off-season times) to raise capital for particular ventures (see also Boyle, 1999, pp. 160-188). < Wirtschaftsring (Economic Circle) co-operative in Switzerland (see Douthwaite, 1999, pp.36-37). ³ < Local Exchange Trading Systems.

The above forms of money will be expanded as appropriate at the APF conference.

A number of observations can be drawn from the list of possible forms of money outlined above. First, the particular form of money comes about from a particular set of social relations. The prisoner of war example is an especially pertinent one in this respect. The second thing which can be suggested, is that different forms of money are thought of in different ways. This point has been developed at length by Zelizer (1997) who examines the social meaning of money. In particular, she deconstructs prevailing interpretations on money as solely an economic phenomena where all monies are equal and suggests the “while money does serve as a key rational tool ... it also exists outside the sphere of the market and is profoundly influenced by cultural and social structures” (p.18). As such existing money may be marked⁴ or new forms of money could be created which reflect particular social interactions. Indeed, such a realisation is implicit within Douthwaite’s (1999)

² Zelizer (1997) documents forms of institutional money being used in prisons, mental institutions and schools.

³ A summary of WIR is to be included here.

⁴ One example of marking conventional money she gives is the process of placing a distinctive mark on money by gay people as it passes through their hands to highlight both the existence of gays in the community (which may be hidden to many members of that community) and the economic power of gays (the idea of a ‘pink pound’ mark). Another way of marking money as a gift is to place that money in particular wallets/cards or to decorate the money in a special way so that it could be seen to be different from regular money or to reinforce that the gift money was to be spent in a different way from non-gift money. See Zelizer (1997), pp. 20 and 114).

suggestions that there “are, potentially at least, many different types of money, and each type can affect the economy, human society and the natural environment in a different way” (p.9). This brings us to the point where the sustainable development agenda should be considered, along with the question: what kinds of money would be sustainable?

3.0 The sustainable development agenda

Sustainable development can be thought of as “development which meets the needs of the present without compromising the ability of future generations to meet their own needs” (United Nation’s World Conference on Trade and Development, 1987, p.8). The impetus for the idea of sustainable development arose from the dual concerns of the perceived lack of development in the very poorest countries of the world and the environmentally (and socially) damaging nature of development as practised by those in the developed world. The sustainable development agenda is truly huge, ranging from issues of global environmental stability, women’s emancipation, population levels (and distributions) to sustainable agriculture and sustainable types of business organisations.

The sustainable development agenda, particularly within the context of business discussions around the concept usually focus on two aspects to sustainable development: eco-efficiency (broadly concerned with environmental issues) and eco-justice (which is broadly concerned with issues of social justice). What this dichotomy hides, however, is that the key aspect of the sustainable development agenda is finding systems of economic organisation which ensure both socially just and environmentally sustainable outcomes to be achieved. A formula which makes this a little more explicit is that of Elkington’s (1997) ‘triple bottom line’ which posits that a business has to be sustainable in a financial/economic, environmental and social sense. The strength of Elkington’s idea is that the financial bottom line is brought into the equation in a way that the eco-efficiency/justice distinction fails to do so. The danger, however, is that business may decide that making profits constitutes a sustainable economic bottom line. Such an assumption is problematic. What is implicit within the sustainable development literature is a need to re-envision what sustainable economic development entails (see also Hawkins et al., 1999). Linked to such a search is research undertaken under the guise of accounting for sustainable development.

Accounting for sustainable development encompasses a wide variety of activities. The area, however, has two primary focuses. First, it seeks to explore the extent to which existing accounting practices prevent organisations pursuing sustainable development. The second focus of area is to explore new ways of accounting which would support sustainable development. New ways of accounting develop from organisations interacting in new institutional arrangements (such as the passage of regulations which encourage, for example, full cost accounting) and with new forms of economic organisation which could be seen to be more sustainable. It is in this second area that this paper draws from with LETS being a new form of economic organisation which is intended to support sustainable development at a local community level.

4.0 LETS in more detail

At their most basic LETS were “founded by people who have both wants that they would like to fill, and time or other resources for which they cannot find a market in the mainstream economy” (Douthwaite, 1999, p.65). Membership of a LETS enables you to buy and sell goods and services without using cash. Rather, the particular LETS currency is used in a ‘virtual’ sense, usually with LETS cheques being exchanged or with LETS tokens being used as money. Exchanges are recorded by the LETS ‘bank’ to whom system participants are either a debtor or a creditor (see, Robertson, 1999). Several rationales for LETS can be suggested. First, LETS are seen as a way of supporting local community development, especially where groups of people lack access to the money economy but where they have goods and services to trade (see, for example Hudson et al., 1999). In this way LETS may enable these individuals to gain access to goods and services which they might otherwise lack. Second, LETS are often seen as having spin off benefits in terms of local community development (especially in poorer areas) in that they bring individuals in contact with each other. LETS are also seen as a way in which individuals, organisations and in communities can de-couple themselves from the traditional economy and avoid some of the problems they face within that system. For example, LETS do not merely reproduce existing economic arrangements but they offer an alternative way in which to be involved in economic activity. For example, LETS do not usually charge or pay interest on balances owing or owed. In addition, the exchange rates between the LETS currency and goods and services do not necessarily mimic the values ascribed to these goods and services in the traditional economy. As a result, LETS provide a number of challenges to our conventional understanding of exchange values, accounting for exchange and how we conceive of money. A number of practical and theoretical issues for accountancy and finance therefore arise.

There are approximately 450 LETS groups in the UK with 35,000 people involved in these schemes. These schemes mainly involve individuals but in some instances small businesses are also involved in LETS.

This section is at present incomplete. At the APF conference itself details of the history and development of LETS will be enlarged upon and the specific characteristics of some LETS will be provided.

5.0 Accounting and LETS

The existence and implications of LETS are an under-researched area. Certainly, no research has been conducted on them from an accountancy viewpoint. The material below summarises the areas which are to be addressed within the LETS work and the reasons why these questions are being asked. Observations on these questions and additional possible questions will be considered and developed at the conference itself.

The research agenda (for a sample of Scottish LETS):

- (1) A brief history of the particular LETS will be developed, drawing from the LETS own documentation and from discussions with LETS organisers. This search is both in order

to thoroughly document particular LETS but also to start investigating the nature of LETS. The latter aspects reflects Zelizer's (1997) ideas that money takes particular characteristics depending on its history. One issues which will be investigated in order to explore this aspect is the naming of the LETS currency (each LETS usually has some colourful currency name). Thus, it appears that the currency name is of some significance in the set up of the LETS and may be seeking to localise, customise or authenticate the money. Conversely, it may be that the currency reflects its local character. In addition, the net flow of funds, levels of indebtedness and trading in LETS will be summarised and evaluated. In addition, any 'non-successful' LETS which can be found will be examined to see how they contrast with functional LETS.

- (2) The second main area of investigation is into the types of good and services which are offered within our sample of LETS. There are several rationales behind this aspect of the investigation. First, one could expect that the types of goods are services offered within the LETS will be both similar to and different from the mainstream economy. One would expect similarities because of the underlying rationale for LETS. If LETS are designed to bring people into the economy who do not currently have access to it, then one would expect that common goods and services would be exchanged within LETS. It is likely, however, that the range of goods are more likely to reflect local economic goods and services and to be of the nature of essential goods (one would not, for example, expect to buy a foreign holiday via a LETS). It would also be interesting to see whether there were any goods or services which are frequently offered within LETS but which are rarely found in the wider economy.
- (3) The third area of investigation focuses on the implicit exchange rates between LETS goods/services and the conventional economy goods/services. For example, alternative money schemes which use time as their basis for measuring value do create exchanges which are not equivalent the mainstream economic exchanges and it would be of interest to see if LETS have this characteristic at all, *Prima facie*, one would not expect huge value differences to emerge. There may, however, be regional differences which one would expect given the local nature of LETS. In basic terms then the research questions would encompass the following. How do exchange rates between goods and services and LETS currencies differ from those in the economy at large? Would one expect differences in exchange values to arise between these two money systems? If there are exchange value differences what do they tell us about the nature of LETS and the nature of the economy. In addition to exchange rates at a point in time, changes in exchange rates between LETS and the conventional economy over time will be examined. That is, is there inflation/deflation within LETS in line with general price level changes in the economy. Further, the possibility and mechanism for specific price level changes will also be investigated.
- (4) In line with an interest in the gendering of exchange (introduced by Zelier, 1997, who explores the way in which women's money has been understood in the past – for example, by referring to women's money as pin money, p.204) LETS will be placed under the lens of gender relations. Several issues arise here. For example, could the particular types of goods and services offered within LETS be classified as men's or

women's goods or services by virtue of either gender customarily creating those goods/services or purchasing those goods/services. Further, whether or not LETS membership characteristics can tell us anything about their gendered nature will be attempted.

- (5) The fifth set of questions concern how LETS sit within the local and national economy. For example, are LETS income exempt in the process of calculating income for the purpose of determining benefit entitlement. Further, especially if small businesses are involved in these schemes an evaluation of how LETS interact with the taxation regime will be undertaken. This part of the programme reflects a concern that rigid government agencies (for example, the benefits agency) may prevent LETS from achieving their aims. If this is the case, this work would extend to the policy domain to prevent this happening or to remedy this impact.
- (6) Finally, How would one devise an account of the activities of a LETS from an economic, social and environmental perspective? This is both a practical issue for accountancy as a language of representation of economic activities but also of social and environmental accounting, as it seeks to represent organisation's interactions with their environmental and social contexts.

And (possibly) the theoretical issues:

While there are significant practical reasons to consider how LETS and accounting interact, important theoretical questions also arise from LETS. In particular, an account of economic phenomena is premised on the ability to describe that exchange in monetary terms. LETS undermine this aspect of accountancy and thus present measurement problems of themselves. Further, if we assume that exchange values between goods and services and money tells us something about the value systems of an economy then an investigation of alternative value systems (such as, LETS) will shed light on how individual groups may hold different value systems.

In addition, LETS may shed light on the nature of money and calculative accounts and show them to be something far more complex than they are presently constructed in the accounting literature. For example, Miller (1992) characterises accounting thus:

"[f]ar from being neutral devices for mirroring the social world, the calculative technologies of accountancy are complex machines for representing the intervening in social and economic life. Along with allied expertise, the creation of calculating selves and calculable spaces enables a normalization of individual lives that is cast in financial terms. The visibility conferred on the calculating self who occupies a specific locale within a loosely assembled net work of calculable spaces is intrinsically linked to norms of financial performance. Ways of organizing and ways of calculating have developed hand in hand (p78/9).

The way of organising and representing which emerge for LETS are, therefore, of considerable interest because if LETS are more democratic, localised or accountable ways

of organising economic life then one would expect this to be reflected in their calculative characteristics or in accounts which emerge from their activities.

Thus, this work may shed light on the extent to which money interacts with values in society. Zelizer (1997), for example, notes that there “is no question about the power of money to transform nonpecuniary values, whereas the reciprocal transformations of money by values or social relations is seldom conceptualized or else is explicitly rejected” (p.12). LETS, however, provide a context within which the “allegedly freedom and unchecked power of money becomes improbable. Cultural and social structures set inevitable limits to the monetization process by introducing profound controls and restrictions on the flow and liquidity of monies” (p.19).

6.0 Concluding remarks

As will be apparent to any reader, this paper is in a very early stage of development with the empirical work yet to be undertaken. The reason why the paper is being taken to a conference is to elicit feedback from a group of scholars who are likely to be familiar with the issues it raises. Further, while there are undoubtedly alternative perspectives to conventional finance there are also alternative financing mechanisms to be explored. This paper sits very much of the nature of the second interpretation of alternative perspectives on finance.

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