

Bartering Today: The New Economy

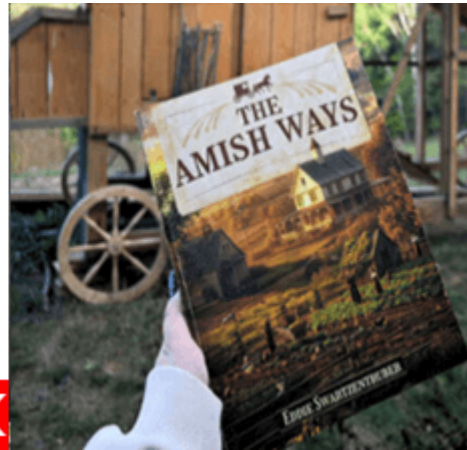
When you engage in bartering, you directly trade your goods, services, or skills with another person who has goods, services, or skills that you want to own or make use of. There are bartering structures you can use now, as well as in a time of economic collapse.

Pros and Cons of Bartering

- **Disadvantage** – Bartering often involves haggling because there is no centralized value for goods and services pegged to a medium of exchange. If you are good at haggling and negotiating, then you will do well with bartering. If you don't have these skills, then you might lose out even if what you have is of greater value than what you get in return.
- **Disadvantage** – Bartering is considered inefficient when compared to using a medium of exchange. Let's say you want to obtain a dozen eggs. If you don't have anything of interest to the owner of the eggs, you won't be able to make the deal. In order to obtain the eggs, you may have to go through several transactions to obtain something of use to the owner of the eggs.
- **Advantage** – When you rely on a centralized medium of exchange, the value can change in harmful ways without you having any say in the matter. Inflation and currency devaluation are examples of things that impact currencies and cryptocurrencies, but not bartering.
- **Advantage** – No third person or other agency can step in and enforce a ration or other mechanism to limit or prevent you from trading one or more items.

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Consider how merchant category codes and other tools are now being used to prevent you from buying certain items or in various quantities. Even though you have the money in your bank account, or available through your credit cards, you won't be able to make the deal because there is a hold marker preventing the exchange.

By contrast, with bartering, if you approach a farmer and want to trade 8 dozen eggs for a harness, the deal will go through as long as both parties have the items in question and are willing to make the deal.

Bartering Methods to Consider

Person to Person bartering

Historically speaking, trading person to person is the oldest method. These deals are usually carried out quickly unless haggling is a cultural point that demands more lengthy negotiations.

Depending on the items exchanged, repeat transactions may occur over time. For example, if a baker requires eggs for certain pastries, he might routinely trade several rolls of bread per dozen eggs.

Group Bartering

You can also barter as a group. This usually works best for

large-scale or bulk items. Let's say someone has 100 loaves of bread to barter. One person won't need all of that bread, but several families getting together to trade would. In this case, each group member might offer something as part of the trade to make up the full value of the exchange.

As in one-to-one bartering, some haggling might go on as individuals try to get the most from their offerings. The pressure of the group interest, however, can limit this as the owner of the large-scale item will be more eager to make the deal and not waste time or effort looking for more people.

Barter Banks and Clubs

The third method involves the use of bartering banks and clubs. Bartering banks were especially popular during the Great Depression when money was scarce. One of the most important things about barter banks is they can make trade more efficient without the use of money or debt.

Bartering banks bring buyers and sellers together in a single market. If you have a good, service, or skill to trade, the barter bank adds it to the list of items available to others. Next, the bank owner matches up traders. Once both sides agree on the deal, the bank owner charges a small fee for bringing the traders together. Depending on the bank owner's interest, this fee can also be paid in the form of a barter.

From soaring interest rates to outright monetary depreciation, bartering banks and clubs can offer relief when purchasing many consumer items.

There are two tricks to optimizing how a barter bank or club works:

- **Local Diversification** – Let's say you want to reduce the cost of fresh foods such as fruits, vegetables, eggs, and meat. If you live in a small town surrounded by

farms, a bartering club will be fairly easy to set up. As long as each bank member has something of interest to offer the farmers, the club and members will do fine.

- Optimizing Travel – People that live in a city will always have a harder time reducing food costs. This situation is likely to be even worse with bartering because the tangible goods and services required in each area are different.

A barter bank can still generate multiple transactions, enabling people and groups to trade effectively. The key to this is the trade needs in the areas between the farms and cities. Co-ops and other group structures can still work within the bank to trade in bulk with the farms, and then generate another trade at the city level with individual bank members.

5 Things to Keep in Mind When Founding a Bartering Club

1 Research who has tangible goods and services that will be of interest in a time of need. Talk to them now and see if you can get them to take advantage of a free membership or other incentive even if they don't immediately start using the service.

2 Cultivate people that wouldn't usually look for bartering opportunities. This includes medical professionals and others who may not know what to do during a major economic crash but still need things like food, clothing, and other tangible goods.

3 Form a business structure, such as a corporation, that shields you and your personal assets from liability. Keep a competent accountant and lawyer on hand for advice.

4 Get a professional marketing plan. Few things in

business are worse than having a great idea, people with valuable products, and no way to expand the network to critical mass. Professional marketers can help you reach a wider audience and ensure you adhere to your theme.

5 Pay attention to business infrastructure. You will most likely use cloud hosting services that enable transactions to occur securely in real-time.

Economic crashes have happened overnight, leaving people with no place to turn. Your barter club will be what they are looking for. That may mean upgrading at a moment's notice to take on all the new activity. Make sure you know exactly how long the upgrades will take and the up-front cost.

You should also be able to run the barter club without using computers. Ham radios for you and club members and paper ledgers are tedious but valuable backups.

Fair Market Value – What it is and How it Works

Even though you aren't using money or credit to purchase goods and services, the government still looks at your labor and everything you own from a monetary perspective – or "Fair Market Value". Therefore, when you make a trade, the value of the transaction is considered in terms of monetary profit or loss for tax purposes.

Arriving at fair market value can be complicated, however the government uses a range of metrics to determine the value. This includes consumer price indexes based on past performance of any given item and assessments of current trends.

These pricing indexes and forecasts are available from national to locality levels. To get started, look to the Bureau of Labor Statistics ([bls.gov](https://www.bls.gov)) for information at the national level. Some of it is free, while you will need to

pay a subscription for other items. If you have a library nearby, they may have subscriptions to this information that they allow patrons to access for free.

Even with all of this data, arriving at fair market value of goods or services can be difficult. Adding to the challenge, if both parties have agreed ahead of time on the value of the goods or services, this value will be accepted as a fair market value unless you can prove another value is more accurate.

Bartering and Your Tax Burden

When you barter in a club or group, you may wind up with an accumulation of credits until you find something you want to use them on. These credits are taxable, just like any other asset, and are considered income.

Any income or profit that you make as a result of bartering must be reported on your tax returns. Bartering clubs, like any other business, must file a 1099-B that shows all of your transactions, plus the Fair Market Value profit or loss.

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If you make a business out of bartering, then the forms you file will be different from those used for individuals. In addition to federal filings, you will need to know what forms to use for the state and the city if it levies taxes independently of the state.

Most people don't think about bartering as something to engage in before a major social collapse. There are different kinds of bartering you can make use of, even in these times. Bartering clubs, in particular, can be an ideal business opportunity that will be of use to you and others in a time of need.

Resources – <https://www.irs.gov/taxtopics/tc420>