

Local Exchange Trading System (LETS)

Description

A Local Exchange Trading System offers an alternative to the conventional money system when conventional money is limiting the possibilities of the community economy. The amount of conventional money available in a community depends on how much comes in from exports, visitors, investment income and government spending. Conversely, it also depends on how much money leaves through imports, travel, investment expenditures and taxes. While the conventional system does many things well, it can leave the community vulnerable to external forces that the community has limited ability to influence. It can also mean a limited supply of money circulating in the community. Since money is the means of exchange, the limited supply results in fewer opportunities for people within the community to trade goods and services.

The LETS establishes a trading network for people in a specific community who will use an internal currency alongside conventional money for trading among themselves. The users manage their own 'money supply' as a way of measuring the relative value of the goods or services sold or bought. This local currency can't leave the community and thus continues to circulate internally. Since the currency is issued by those who use it, there is always enough local currency to meet the needs of the community.

By way of example, consider a simple three-way exchange: George builds a new room for John's daycare centre for an agreed-upon fee of 5,000 local dollars, transferred into George's account from John's account. John cares for Sue's two children for the fee of 200 local dollars per week for 10 weeks, receiving 2000 local dollars. Sue does George's books for three months for 1,500 local dollars. If all three started from zero balances and did not otherwise trade during this period, George would now have a positive balance of 3,500 local dollars; John would have a negative balance of 3,000 local dollars; and Sue would have a negative balance of \$500 local dollars. They would all be equally free to continue trading with others or with the same persons, changing their balances as they went.

A LETS can operate successfully on a very small scale with only a handful of users sharing a specific activity, e.g., a baby-sitting exchange. Alternatively, it can operate as a full-scale community system with hundreds of users. In the larger scale systems, typically there is a core of active users but with many others whose participation is more sporadic. A fairly large number of users is needed in order to open sufficient trading opportunities for people with very specialized skills.

There are now hundreds of LETS established throughout the world. But the first LETS was established by Michael Linton in 1983 in the Comox Valley of British Columbia.

The essential characteristic for a successful system include:

1. Administrative costs are recovered according to the cost of transactions in each account.
2. Each account holder has control over his/her account. There is no obligation to trade.
3. Information about any participant's account is available to any other account holder. Thus participants can judge the degree of commitment, contribution and/or activity of any potential trading partner.
4. No interest is charged.
5. Local currency, in most instances, is figured in equivalents to the national currency.

Benefits

The LETS have the potential to encourage and support local trading in addition to whatever might occur in a community's conventional economy. Since individuals can become engaged in productive activities even if they lack money, these systems can enhance the participation of low-income people in both the economic and social aspects of community life. A business can reduce its reliance on cash flow during its start-up period and even beyond.

Communities can benefit from more connections and interactions among its members; from increased levels of economic activities consistent with community needs, skills and values; and from improved community spirit.

Since the local money can only be spent within the system, it goes around and around encouraging additional trading. And because no interest is charged or accrued, spending is encouraged, as there is no incentive for people to hang on to a positive account balance. At the same time, participants are able to reduce their use of conventional money and make their cash go further.

Major challenges

The Local Exchange Trading System concept is easy to understand and very appealing to those disenchanted with the conventional monetary system. As such, there may be a temptation for a community to hastily establish such a system without sufficient attention to creating a strong shared vision, building community support, and developing the organizational capacity to sustain the administration of the system over time.

Furthermore, the LETS, like other systems, are open to abuse. It is possible for a user to take more goods and services than they contribute and then to leave the system. It is important for traders to take responsibility for assessing the character and accounts of those with whom they exchange. Account information must be easily accessible for full review and

efforts need to be undertaken to build a shared commitment by the participants to watch out for those who look like they may be abusing the system.

No one or no institution is able to provide quality assurance on behalf of the Local Exchange Trading System since it is an information system not a legal entity. Individuals providing the goods or service can take on this responsibility only in relation to their own accounts. It is a matter of 'buyer beware'; the consumer must ensure that the provider is able to meet an acceptable standard.

Participants in local exchange trading systems also need to understand that there may be implications related to taxation, income assistance benefits and unemployment insurance. These need to be thoroughly explored.

There has traditionally been low participation in local exchange trading systems by established businesses due to their tendency to be conservative and motivated to avoid perceived complications in areas such as accounting and taxation. While not essential, participation of businesses will help bring the LETS idea into the mainstream and increase broad public acceptance and participation. One innovative approach to this challenge is the Community Way initiative underway in the Comox Valley of British Columbia. Businesses donate Community Way dollars (CW\$) to support charitable projects and undertake to accept CW\$ in partial payment of a sale. Individuals then support these projects by exchanging regular currency for CW\$ which they can then use for partial payment with the participating businesses or to purchase goods and services from other users. The system encourages business participation by providing an opportunity to make charitable contributions in a way that increases customer loyalty and local spending.

Some practical steps

1. Proponents of a Local Exchange Trading System need to begin by clearly identifying their vision for the trading system. Basic agreement must be developed about the objectives, scope and organizational structure.
2. Individuals could be assigned research tasks regarding experiences and practices of established alternative trading systems in such matters as currency, account holder agreements, registries, legal issues, resources. The best sources of information seem to be available through internet and personal contact.
3. The initial vision and a basic organization and operations structure should be outlined in a clear, concise written format that can be used by the initial proponents group to build community support and participation. As this support and participation builds, some changes may need to be made to accommodate new perspectives and concerns, as well as to develop a broader sense of ownership for the system. However, it will be important to

balance this against the need to begin with a system conservatively based on identified successful practices.

4. The set up and initial administration of the system will take time and have some initial expenses. Start-up funding would allow someone to have the time and resources to facilitate organizational meetings, information distribution and the setting up of administrative systems such as the system registry.
5. A clear system for ongoing system administration must be developed. Most successful systems compensate the system administrator with local currency from user accounts according to the transactions undertaken.

Resource organizations & contacts

- LETSystems – The Home Page (www.gmlets.u-net.com) provides excellent links to sites with information about issues, administration software, organization, and user materials.
- LETS Connect, 12 Leasowe Green Lightmoor, Telford, Shropshire, UK TF4 3QX (www.gmlets.u-net.com/resources/letsconnect) is an information and support network.
- Econ-lets (www.mailbase.ac.uk/lists-a-e/econ-lets) is intended for e-mail discussion of issues surrounding the development of LETS. E-mail address: econ-lets-request@mailbase.ac.uk
- LETSAssist Software, The Cyberclass Network, P.O. Box 9333, Ottawa, Ont. K1G 3V1, tel. 613-746-9702, offers shareware software to support LETS.
- John “The Engineer” Turmel (www.cyberclass.net/turmel) provides another home page with links to articles, sites, software, press articles and book reports.
- LETS Vancouver, 617 Union Street, Vancouver, BC V6A 2C1, tel. 604-3269 #9235, provides an example of a Local Exchange Trading System. Their web site (www.alternatives.com/lets) has an account holder’s agreement, a directory of offers and requests, and useful links.
- Michael Linton, Landsman Community Services Ltd., 1600 Embleton Crescent, Courtenay, BC V9N 6N8, the initial architect of LETSystem, also can help on the design and development of organizational systems for community banking.
- Community Way (www.communityway.org) provides a new tool for charitable fund-raising, initiating community currencies and encouraging business participation in local trading.

Publications

- *The LETSystem Design Manual* provides practical and theoretical information ranging from fundamentals of the system to administration and legal issues. It can be downloaded from the LETSystems homepage identified above.

Tools & Techniques

- *Local Exchanges Trading Systems* by Sidonie Seron, found in the resources section of the LETSystems Home Page (www.gmlets.u-net.com/resources/sidonie), provides a useful analysis of LETS and raises some important issues and cautions.
- *Frequently Asked Questions about LETSystems* is available from LETSgo Manchester, 23 New Mount Street, Manchester, UK, M4 4DE (www.gmlets.u-net.com/faq.html).