



An empirical investigation of trends in barter activity in the Russian Federation

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Abstract

Barter, which has dominated the Russian economic landscape for years, has significant economic and accounting implications. Barter often camouflages Russian businesses' financial and tax statements making true costs, prices, values, and profits a mystery, thereby compromising financial-statement transparency. Contemporary literature suggests that barter is still rampant in Russia.

For this study a group of Russian businesspersons were asked to complete a survey regarding the levels of barter in Russia since 1996. The empirical evidence we collected provides insight into recent trends in barter in Russia, including indication that the incidence of barter has dramatically decreased. These findings have significant implications for Russian business and economic development. A reduction in barter is likely to enhance financial-statement transparency, thus minimizing information risk for potential investors and creditors.

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1. Introduction, motivation and purpose

Barter² has dominated Russia's economic landscape for years and has significant implications for the country's future economic development and its ability to attract foreign investment (Aukutsionek, 1998; Goldman, 1998; Makarov & Kleiner, 2000; Mardak, 2002; Van Schaik, 1998). Barter significantly affects and distorts the aggregate Russian economy. For example, barter embellishes prices, costs, and wages, impelling a cashless *virtual economy* (Brady, 1999; Ericson, 1999; Ericson & Ickes, 2001; Gaddy & Ickes, 1998a; Lindberg, 2002). Barter can be a detriment to the forces of supply and demand, and can create higher transaction costs (Commander, Dolinskaya, & Mumssen, 2000) while eroding the equilibrium pricing structure (Banerjee & Maskin, 1996; Yakovlev, 2000). Barter creates a barrier to exit for inefficient organizations by discouraging enterprise restructuring (Brady, 1999; Iakovlev, 2000; Ramey, 1992), by weakening enterprise competition, and can also lead to declines in output (Kim & Pirttila, 2004).

Barter is an accounting issue as well as an economic one. In the United States, APB Opinion No. 29 recognized the valuation and reporting problems related to such "nonmonetary transactions" (Accounting Principles Board, 1973). Without cash, barter transactions are easily hidden from view. Networking inherent in barter negotiation obfuscates market values (Enthoven, 1999; Ericson, 1999), hindering the ability of firms to measure their true costs and profitability because of misleading numbers (Bush, 1998; Enthoven, 1999; Ericson, 1999). Furthermore, barter clouds the financial position of a business, making it harder for investors and creditors to screen and investigate efficiently (Commander, 1999). Barter also increases risk for foreign investors by hindering time-series and cross-sectional analyses (Coker, 1999b; Coyle & Platonov, 1998; Enthoven, 1999; Higgins, 1998; Lindberg, Lindberg, & Razaki, 2000) and complicates internal and external monitoring of managers in particular and corporate governance in general by reducing accounting transparency (Commander, 1999; Defond & Hung, 2004; Guriev,

² While this manuscript defines barter as direct or commodity (pure) barter, some researchers utilize the term more broadly. Three definitions and related descriptions of barter and non-monetary exchange include (1) direct barter, (2) offsets (often called Zachety or Vzaimozachot); and (3) veksel. Lindberg (2002, p. 6) defines **direct** (or commodity) barter simply as "...an exchange of goods or services, or a settlement of an obligation, without the use of money as either a means of payment or a unit of account." Commander et al. (2000, p. 3) define direct barter as follows: "...goods are exchanged for goods, either bilaterally or in chains." Commander et al. (2000, p. 3) and Commander (1999, p. 19) state that **offsets** may involve exchanging debt for goods and are commonly "used to clear transactions among groups of firms; between firms and tax authorities; between firms and utilities or government." These non-monetary transactions may involve debt swaps and roll-overs (Commander, 1999, p. 19). According to Lobacheva (2003), settlements involving several entities without the use of cash are called Vzaimozachot, and this technique is often used because of general illiquidity issues. A third, common type of non-monetary exchange in Russia involves the use of **veksels**. Commander (1999, p. 19) defines veksel as promissory notes "issued by enterprises, banks or government with specific maturities and discount rates..." Goldman (1998) mentions that veksel are essentially IOUs from one enterprise to another. "Like barter, the veksel is designed to fill the void caused by the unavailability of cash, and is widely used not only by private businesses but by the government itself" (Goldman, 1998, p. 219). Additional information regarding Russian barter may be obtained from the University of Michigan's William Davidson Institute website: <http://www.wdi.bus.umich.edu/>.

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