

The Barter System: Are we moving towards a reapplication of it?

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There existed a time in history when money and its use was not discovered by man. It was a time when the barter system was in use for payment. In this system a commodity was exchanged against another. There was no usage of money. Many historians are of the opinion that this system started before the Stone Age. Today this system does not exist except in some backward parts of the world. In certain areas of underdeveloped and war struck Afghanistan, in the interior villages of Bankura district of West Bengal (India), in areas of north west frontier province of Pakistan and interior rural areas of poor nations like East Timor, the system of barter economy can be evidenced. However, it is mention worthy here that no government in the world today recognizes the barter economy as a mode of payment. So the barter system can be called an illegal system. There are reasons behind the fact that no government recognized this system and so this system has got obsolete with the passage of time.

In order to run the barter system the demand or want has to be generated from two individuals and for the commodities that they are offering to each other. In this age when there are so many choices available to customers/ consumers, tastes, preferences, choices and consumer behavior may differ/ vary even in the smallest possible chunk of time. For example, say in an economy there are two people. One has rice and needs bread. The other has curd and needs vegetables. Under the circumstances it is impossible to run the barter system between these two people. If the situation would have been like this that the one who has rice needs curd and the one who has curd needs rice, then perhaps it would have been possible to run the barter system between them. However, the word “perhaps” is being used here because the factors like quality of rice and variety of rice are not being taken into consideration in this example.

It has to be remembered that one of the problems that is faced in the world of business studies is that certain commodities are not divisible. This is one of the reasons that the barter system had to disappear. Say a person has ten sheep and he needs rice. As per the market rate this person can get two quintals of rice against one sheep. Mathematically, then it can be said that this person can get one quintal of rice against half a sheep. But how is it possible to exchange half a sheep if that person requires one quintal of rice? It is the indivisibility of a sheep that makes it impossible to exchange and get one quintal of rice. Thus the barter system cannot be used for all commodities.

In the barter system the price of a commodity is expressed in terms of another commodity. If we study this system it can be seen that the price of a commodity cannot be determined in the barter system. It is only being expressed in terms of some other commodity and that also varies from commodity to commodity and time to time. To economists around the globe this system appears to be an unscientific system.

If the barter system is used for selling and purchasing of commodities then GDP (Gross Divisible Profit), GNP (Gross National Product) and national income can never be computed. This is because in the barter system the value of the commodity being sold and purchased cannot be determined. Apart from this, the barter system will never help in the collection of taxes (whether direct or indirect) from the citizens of the country. In the absence of collection of taxes it will be impossible to run a nation.

In the barter system one commodity is exchanged against another commodity. Sometimes certain commodities have a perishable nature like food items, decorative flowers etc. In case of such perishable commodities it is very difficult to store them for future use. That is why; some economists believe that the barter system is a costly system. In this system the price and energy used for warehousing the commodities also has to be added to the exchange value of the commodity.

In the barter system one commodity is exchanged against another. Therefore the demand for commodities can never rise beyond a certain level in this type of a system. A consumer has to sacrifice one of his belongings/ possessions to get another commodity. Because there is never rise in any sort of demand, aggregate demand in the economy remains usually the same. There is

never any pressure on production of more amounts of the commodity. Thus, there is limited scope for trade and commerce following the barter system. In fact, most economists around the world believe that the barter system got obsolete mainly because of the fact that it gives limited opportunity for trade and commerce.

Thus, with the introduction of money, the barter system kept on losing its importance unless at one point of time it got obsolete.

However, if we consider today's scenario the barter system may have some scope for application. One of the funniest aspects of this era is that it is the age of globalization, yet we are divided and classified into so many classifications. Volumes of trade between nations have increased manifolds in this age. Interactions between various parts of the world have doubled/tripled. But there is a problem of different nations having different currency systems. This is putting a hindrance to trade and commerce. Still almost nothing has been done about it or nothing could be done about it. There are so many talks about common currencies. The "Euro" is being used in so many nations. But still most nations in this planet have their own currencies and that is a threat towards further development of international trade. These problems relating to foreign exchange can be solved by the reintroduction of the barter economy.

Another benefit of the barter system is that there is no money involved in the system. So there is no production or consumption of commodities that do not have any demand in the market. Moreover there is no excess production. There cannot be problems relating to over production, under production, hoarding of commodities, inflation and over utilization of resources in a barter system.

Last but by no means the least; in the barter system one commodity is exchanged against another commodity. There is no money involved. Commodities having a demand are only produced. There are no problems relating to marketing of the commodities. Due to involvement of fewer complications, less people will be involved with economic activities. So problems relating to management of human resources will also be less. Thus, this system is a very simple system. It can very easily be understood, adopted and explained to all.

It is due to the above mentioned advantages effort is being made in developmental economics to invent a system that will have the advantages of the barter system and the system in which

money is used for economic activities. In the developed nations like U.S.A. and the European nations already there is a term being used which is “cashless economy.” It is an economy in which instead of liquid money, electronic money is used i.e. money is used by transferring it through electronic devices like computers, mobile phones, lap tops, tablets etc. Even developing economies like India is making a strong effort to create a cashless economy. This effort in India started in November, 2016 through demonetization measures taken by Prime Minister Narendra Modi.

At the initial phase the demonetization was started by Prime Minister Modi with the objective of dealing with the black money that affected India’s economy badly and was one of the issues that was highlighted in the elections that saw Modi coming to power in India in 2014. But after the declaration of demonetization it was seen that there was an acute shortage of currency notes in India. At such a critical time the Government of India was forced to adopt the policy of making an effort to create a cashless economy.

A cashless economy brings in some inherent benefits that barter system has. Firstly, since there is less usage of cash in such an economy security issues relating to cash decrease by a significant level. Secondly, in a cashless economy buying and selling of commodities involve fewer complications just as it is in barter system. Thirdly, the cost of preparation of currency notes and coins for transactions reduces greatly in this type of an economy. Of course in a barter system it is zero. But in a cashless economy it is not zero. It can be said that it is closest to zero.

At this critical juncture a question that is being raised is that by the creation of cashless economy are we trying to create a system that has the advantages of the barter system or are we trying to create a more advanced form of the old barter system? The great French philosopher and political thinker, Voltaire once said that everything in nature is resurrection. If that saying is considered to understand the evolution of the cashless economy, does that also indicate that globalization will continue to erase the borders between the nations thereby creating a common world ... something that was once dreamt of by Martin Luther King when he said that either we shall live as one or perish as individuals? In such a common world can we come out of the use of money totally and reapply the barter system? These are questions, answers of which lay stored in the womb of future. For the time being there is no problem in treating the cashless economy as a more advanced/ sophisticated version of the old barter system that disappeared long ago.

