

# Barter system



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The Challenges of Barter System And How It Affects the Socio-Economy of a Country Remember back in school when kids would swap Juice boxes for chips, or cookies for candy? Even children have an innate sense that the comparable value of cookies to candy is in the eye of the beholder. To the kid who gets cookies every day, the elusive cream-filled cake treat is worth more than a few, and he realizes his friend might feel differently. Trading goods and services without the use of money is called bartering.

With the advent of money-based system, barter system has becoming more toward a necessity. However in time of need, this necessity has complicated procedure in order to perform it. Due to economic factor, barter system is impractical and it can become a leading source to economic downpour but however barter system can also become an attractive alternative in economy declination. Historically, bartering activities dated back centuries ago and was quite useful after humans dropped their nomadic ways and settled down to farming and started to live in communities.

It is also traditionally common among people with no access to a cash economy, in societies where no monetary system exists, or in economies suffering from a very nstable currency (as when very high rates of inflation hit) or a lack of currency. In these societies, bartering oftentimes has become a necessary means of survival. Through bartering, people foster bond and relationship and in most cultures, barter system was used before money was created and immensely popular in trading.

Explorers, merchants, pilgrims, and traders will bargain for specific items that they want. This occurs frequently in the medieval trade route such as

the ancient Silk Route, which led from China to the Mediterranean and the spice trade in the Incense Route (Bellerby, 2008). Goods such as food, spice, cloth, raw material, art craft and others are goods that were bartered on those days. First and foremost, barter system is impractical to perform. Barter system is an economic system that benefits both parties but it required perfect timing and double coincidence of wants.

Exchange can take place between two persons only if each possesses the goods which the other wants such as if a weaver needs shoes and he has cloth to offer in exchange he should not only find a cobbler who makes shoes, but find such cobbler who needs cloth and is prepared to give shoes in exchange for it. In this case, it was difficult to find such a person. Not only that, barter system is also impractical because there is no equal trade or medium of exchange into which both seller and buyer could convert their tradable commodities. It is like comparing apples to oranges, but even apples and oranges, with all their differences, are both fruit of relatively equal size and shape" (McGrath, 2008). When people barter, issues related with " equal trade" arise where it is difficult for people to estimate the true value of the goods. As a society advances, and a much greater volume and diversity of output is produced, bartering becomes more and more complicated and cumbersome. Calculating the value or cost of each item in terms of every other item becomes costly and cumbersome.

It does not require the existence of very many items before this happens. Bartering just doesn't suit the needs of a modern, diversified economy, even though some bartering still goes on in the world today. Besides that, barter system is a leading cause to economic downpour. The most important

advantage of bartering, however, is its conservation of cash, which results in greater liquidity. This consequence causes a severe, sudden poverty and dramatic economic collapse preceded by runaway inflation (Agarwal, 2010).

These make barter system to be inefficient and only advantageous to monetary system when money cannot hold its value predictably. Under barter system there was no measure of value which the standard value is absent. Even if two persons met together who wanted each other goods, they could not find a satisfactory equilibrium price. Under such conditions one party had to suffer. However, dollar is a stable predictor of value compare to any barter and it used to buy supplies from anybody from anywhere rather than waiting for the double coincidence of wants.

Not only that, bartering cannot used as investment tool as most bartered good are easily perish and do not last long while money can be stored and use to invest in share, bond, property and others. The increases of money supply will help to spur economic growth and combat recession while reducing money supply will alleviate risk of inflation (Cloutier, 2010). In term of accounting, dollar is a far better accounting tool. It is easier to put dollars into the balance sheet than nebulous barter points. Businesses will be able to tell more easily with dollars.

A business transaction can use dollars anywhere in the US, and nearly anywhere in the world compare to barter system which has limitation. In term of wages, money is used to pay monthly salary instead of bartering monthly income with essential goods. Current income can be used to finance future consumption and purchaser finance a current purchase with future

income (Case, Fair and Oster, 2009, pg 157). When Russia's ruble had that horrible plunge in 1998 people in many areas were forced to resort to the barter system, just as Germans did when the Weimar Marks became more useful as paperweights (bundled together) than money.

The barter system is a sign of backwards, poverty, privation and near-total economic failure. Thus, barter system cannot function similarly as monetary system as it can easily cause economic collapse. In contrast with the disadvantage of barter system, this system does benefit people during inflation. Like the saying goes, money is not everything. Inflation can cause a unit of currency to lose value. This means that 50 cents could buy a bushel of apples last year, it may only buy a single apple this year.

These fluctuations can hurt a society, causing stress, uncertainty and disaster to its economy. If things get bad enough, bartering, with all its disadvantages, can become an attractive alternative. This is why people resort to bartering in situations of great poverty or disaster. These happen a lot in countries such as Russia, North Korea and India. In countries with hyperinflation such as Zimbabwe, barter trade has been common practice to survive as the price of goods will increase dramatically year by year and the local currency, Zimbabwe Dollar is rendered useless (Ncube, 2009).

According to Malaysia's commodities minister, Datuk Peter Chin Fah Kui (2010), "Bartering could be used for contracts with other countries that do not have the cash, we can set the conditions for them to supply us with the goods with foreign countries such as firearm agreement with Russia (Blagov, 2003), Indian Rail project with India (Bhattacharjee, 2003) and fertilizer and

machinery agreement with North Korea, Cuba and Russia (Weisenthal, 2009).

Thus, with depreciation of currency, bartering can be an alternative choice for trade and survival. In conclusion, bartering is often a necessity in societies where the money supply is deficient. No money is changing hands but each part is giving and getting in return. The government should consider barter trade as one of the instruments to accelerate the country's export earnings. Going forward, barter trade is indeed set to flourish among companies and countries.

The worldwide organised barter exchange and trade industry has grown into a multibillions worth of industry a year and is now used by thousands of businesses and individuals. The advents of the Internet and sophisticated relational database software programs have further advanced the barter industry's growth. The society should embrace this practice and from time to time, not only people trade but also they can foster a new bond and may this practice continue to flourish in the future.