

## Chapter Two

### THE MYTH OF BARTER

*For every subtle and complicated question, there is a perfectly simple and straightforward answer, which is wrong.*

—H.L. Mencken

**WHAT IS THE DIFFERENCE** between a mere obligation, a sense that one ought to behave in a certain way, or even that one owes something to someone, and a *debt*, properly speaking? The answer is simple: money. The difference between a debt and an obligation is that a debt can be precisely quantified. This requires money.

Not only is it money that makes debt possible: money and debt appear on the scene at exactly the same time. Some of the very first written documents that have come down to us are Mesopotamian tablets recording credits and debits, rations issued by temples, money owed for rent of temple lands, the value of each precisely specified in grain and silver. Some of the earliest works of moral philosophy, in turn, are reflections on what it means to imagine morality as debt—that is, in terms of money.

A history of debt, then, is thus necessarily a history of money—and the easiest way to understand the role that debt has played in human society is simply to follow the forms that money has taken, and the way money has been used, across the centuries—and the arguments that inevitably ensued about what all this means. Still, this is necessarily a very different history of money than we are used to. When economists speak of the origins of money, for example, debt is always something of an afterthought. First comes barter, then money; credit only develops later. Even if one consults books on the history of money in, say, France, India, or China, what one generally gets is a history of coinage, with barely any discussion of credit arrangements at all. For almost a century, anthropologists like me have been pointing out

that there is something very wrong with this picture. The standard economic-history version has little to do with anything we observe when we examine how economic life is actually conducted, in real communities and marketplaces, almost anywhere—where one is much more likely to discover everyone is in debt to everyone else in a dozen different ways, and that most transactions take place without the use of currency.

Why the discrepancy?

Some of it is just the nature of the evidence: coins are preserved in the archeological record; credit arrangements usually are not. Still, the problem runs deeper. The existence of credit and debt has always been something of a scandal for economists, since it's almost impossible to pretend that those lending and borrowing money are acting on purely "economic" motivations (for instance, that a loan to a stranger is the same as a loan to one's cousin); it seems important, therefore, to begin the story of money in an imaginary world from which credit and debt have been entirely erased. Before we can apply the tools of anthropology to reconstruct the real history of money, we need to understand what's wrong with the conventional account.

Economists generally speak of three functions of money: medium of exchange, unit of account, and store of value. All economic textbooks treat the first as primary. Here's a fairly typical extract from *Economics*, by Case, Fair, Gärtner, and Heather (1996):

Money is vital to the working of a market economy. Imagine what life would be like without it. The alternative to a monetary economy is barter, people exchanging goods and services for other goods and services directly instead of exchanging via the medium of money.

How does a barter system work? Suppose you want croissants, eggs and orange juice for breakfast. Instead of going to the grocer's and buying these things with money, you would have to find someone who has these items and is willing to trade them. You would also have to have something the baker, the orange juice purveyor and the egg vendor want. Having pencils to trade will do you no good if the baker and the orange juice and egg sellers do not want pencils.

A barter system requires a double coincidence of wants for trade to take place. That is, to effect a trade, I need not only have to find someone who has what I want, but that person must also want what I have. Where the range of traded goods is small, as it is in relatively unsophisticated economies, it is

not difficult to find someone to trade with, and barter is often used.<sup>1</sup>

This latter point is questionable, but it's phrased in so vague a way that it would be hard to disprove.

In a complex society with many goods, barter exchanges involve an intolerable amount of effort. Imagine trying to find people who offer for sale all the things you buy in a typical trip to the grocer's, and who are willing to accept goods that you have to offer in exchange for their goods.

Some agreed-upon medium of exchange (or means of payment) neatly eliminates the double coincidence of wants problem.<sup>2</sup>

It's important to emphasize that this is not presented as something that actually happened, but as a purely imaginary exercise. "To see that society benefits from a medium of exchange" write Begg, Fischer and Dornbusch (*Economics*, 2005), "imagine a barter economy." "Imagine the difficulty you would have today," write Maunder, Myers, Wall, and Miller (*Economics Explained*, 1991), "if you had to exchange your labor directly for the fruits of someone else's labor." "Imagine," write Parkin and King (*Economics*, 1995), "you have roosters, but you want roses."<sup>3</sup> One could multiply examples endlessly. Just about every economics textbook employed today sets out the problem the same way. Historically, they note, we know that there was a time when there was no money. What must it have been like? Well, let us imagine an economy something like today's, except with no money. That would have been decidedly inconvenient! Surely, people must have invented money for the sake of efficiency.

The story of money for economists always begins with a fantasy world of barter. The problem is where to locate this fantasy in time and space: Are we talking about cave men, Pacific Islanders, the American frontier? One textbook, by economists Joseph Stiglitz and John Driffill, takes us to what appears to be an imaginary New England or Midwestern town:

One can imagine an old-style farmer bartering with the blacksmith, the tailor, the grocer, and the doctor in his small town. For simple barter to work, however, there must be a double coincidence of wants . . . Henry has potatoes and wants shoes, Joshua has an extra pair of shoes and wants potatoes. Bartering

can make them both happier. But if Henry has firewood and Joshua does not need any of that, then bartering for Joshua's shoes requires one or both of them to go searching for more people in the hope of making a multilateral exchange. Money provides a way to make multilateral exchange much simpler. Henry sells his firewood to someone else for money and uses the money to buy Joshua's shoes.<sup>4</sup>

Again this is just a make-believe land much like the present, except with money somehow plucked away. As a result it makes no sense: Who in their right mind would set up a grocery in such a place? And how would they get supplies? But let's leave that aside. There is a simple reason why everyone who writes an economics textbook feels they have to tell us the same story. For economists, it is in a very real sense the most important story ever told. It was by telling it, in the significant year of 1776, that Adam Smith, professor of moral philosophy at the University of Glasgow, effectively brought the discipline of economics into being.

He did not make up the story entirely out of whole cloth. Already in 330 BC, Aristotle was speculating along vaguely similar lines in his treatise on politics. At first, he suggested, families must have produced everything they needed for themselves. Gradually, some would presumably have specialized, some growing corn, others making wine, swapping one for the other.<sup>5</sup> Money, Aristotle assumed, must have emerged from such a process. But, like the medieval schoolmen who occasionally repeated the story, Aristotle was never clear as to how.<sup>6</sup>

In the years after Columbus, as Spanish and Portuguese adventurers were scouring the world for new sources of gold and silver, these vague stories disappear. Certainly no one reported discovering a land of barter. Most sixteenth- and seventeenth-century travelers in the West Indies or Africa assumed that all societies would necessarily have their own forms of money, since all societies had governments and all governments issued money.<sup>7</sup>

Adam Smith, on the other hand, was determined to overturn the conventional wisdom of his day. Above all, he objected to the notion that money was a creation of government. In this, Smith was the intellectual heir of the Liberal tradition of philosophers like John Locke, who had argued that government begins in the need to protect private property and operated best when it tried to limit itself to that function. Smith expanded on the argument, insisting that property, money, and markets not only existed before political institutions but were the very foundation of human society. It followed that insofar as government

should play any role in monetary affairs, it should limit itself to guaranteeing the soundness of the currency. It was only by making such an argument that he could insist that economics is itself a field of human inquiry with its own principles and laws—that is, as distinct from, say, ethics or politics.

Smith's argument is worth laying out in detail because it is, as I say, the great founding myth of the discipline of economics.

What, he begins, is the basis of economic life, properly speaking? It is "a certain propensity in human nature . . . the propensity to truck, barter, and exchange one thing for another." Animals don't do this. "Nobody," Smith observes, "ever saw a dog make a fair and deliberate exchange of one bone for another with another dog."<sup>8</sup> But humans, if left to their own devices, will inevitably begin swapping and comparing things. This is just what humans do. Even logic and conversation are really just forms of trading, and as in all things, humans will always try to seek their own best advantage, to seek the greatest profit they can from the exchange.<sup>9</sup>

It is this drive to exchange, in turn, which creates that division of labor responsible for all human achievement and civilization. Here the scene shifts to another one of those economists' faraway fantasylands—it seems to be an amalgam of North American Indians and Central Asian pastoral nomads:<sup>10</sup>

In a tribe of hunters or shepherds a particular person makes bows and arrows, for example, with more readiness and dexterity than any other. He frequently exchanges them for cattle or for venison with his companions; and he finds at last that he can in this manner get more cattle and venison, than if he himself went to the field to catch them. From a regard to his own interest, therefore, the making of bows and arrows grows to be his chief business, and he becomes a sort of armourer. Another excels in making the frames and covers of their little huts or moveable houses. He is accustomed to be of use in this way to his neighbours, who reward him in the same manner with cattle and with venison, till at last he finds it his interest to dedicate himself entirely to this employment, and to become a sort of house-carpenter. In the same manner a third becomes a smith or a brazier; a fourth a tanner or dresser of hides or skins, the principal part of the clothing of savages . . .

It's only once we have expert arrow-makers, wigwam-makers, and so on that people start realizing there's a problem. Notice how, as in

*disproves*

so many examples, we have a tendency to slip from imaginary savages to small-town shopkeepers.

But when the division of labor first began to take place, this power of exchanging must frequently have been very much clogged and embarrassed in its operations. One man, we shall suppose, has more of a certain commodity than he himself has occasion for, while another has less. The former consequently would be glad to dispose of, and the latter to purchase, a part of this superfluity. But if this latter should chance to have nothing that the former stands in need of, no exchange can be made between them. The butcher has more meat in his shop than he himself can consume, and the brewer and the baker would each of them be willing to purchase a part of it. But they have nothing to offer in exchange . . .

[ . . . ]

In order to avoid the inconveniency of such situations, every prudent man in every period of society, after the first establishment of the division of labor, must naturally have endeavored to manage his affairs in such a manner, as to have at all times by him, besides the peculiar produce of his own industry, a certain quantity of some one commodity or other, such as he imagined that few people would be likely to refuse in exchange for the produce of their industry.<sup>11</sup>

So everyone will inevitably start stockpiling something they figure that everyone else is likely to want. This has a paradoxical effect, because at a certain point, rather than making that commodity less valuable (since everyone already has some) it becomes more valuable (because it becomes, effectively, currency):

Salt is said to be the common instrument of commerce and exchanges in Abyssinia; a species of shells in some parts of the coast of India; dried cod at Newfoundland; tobacco in Virginia; sugar in some of our West India colonies; hides or dressed leather in some other countries; and there is at this day a village in Scotland where it is not uncommon, I am told, for a workman to carry nails instead of money to the baker's shop or the ale-house.<sup>12</sup>

Eventually, of course, at least for long-distance trade, it all boils down to precious metals, since these are ideally suited to serve as currency, being durable, portable, and able to be endlessly subdivided into identical portions.

Different metals have been made use of by different nations for this purpose. Iron was the common instrument of commerce among the ancient Spartans; copper among the ancient Romans; and gold and silver among all rich and commercial nations.

[ . . . ]

Those metals seem originally to have been made use of for this purpose in rude bars, without any stamp or coinage . . .

[ . . . ]

The use of metals in this rude state was attended with two very considerable inconveniencies; first with the trouble of weighing; and, secondly, with that of assaying them. In the precious metals, where a small difference in the quantity makes a great difference in the value, even the business of weighing, with proper exactness, requires at least very accurate weights and scales. The weighing of gold in particular is an operation of some nicety . . .<sup>13</sup>

It's easy to see where this is going. Using irregular metal ingots is easier than barter, but wouldn't standardizing the units—say, stamping pieces of metal with uniform designations guaranteeing weight and fineness, in different denominations—make things easier still? Clearly it would, and so was coinage born. True, issuing coinage meant governments had to get involved, since they generally ran the mints; but in the standard version of the story, governments have only this one limited role—to guarantee the money supply—and tend to do it badly, since throughout history, unscrupulous kings have often cheated by debasing the coinage and causing inflation and other sorts of political havoc in what was originally a matter of simple economic common sense.

Tellingly, this story played a crucial role not only in founding the discipline of economics, but in the very idea that there was something called "the economy," which operated by its own rules, separate from moral or political life, that economists could take as their field of study.

“The economy” is where we indulge in our natural propensity to truck and barter. We are still trucking and bartering. We always will be. Money is simply the most efficient means.

Economists like Karl Menger and Stanley Jevons later improved on the details of the story, most of all by adding various mathematical equations to demonstrate that a random assortment of people with random desires could, in theory, produce not only a single commodity to use as money but a uniform price system. In the process, they also substituted all sorts of impressive technical vocabulary (e.g., “inconveniences” became “transaction costs”). The crucial thing, though, is that by now, this story has become simple common sense for most people. We teach it to children in schoolbooks and museums. Everybody knows it. “Once upon a time, there was barter. It was difficult. So people invented money. Then came the development of banking and credit.” It all forms a perfectly simple, straightforward progression, a process of increasing sophistication and abstraction that has carried humanity, logically and inexorably, from the Stone Age exchange of mastodon tusks to stock markets, hedge funds, and securitized derivatives.<sup>14</sup>

It really has become ubiquitous. Wherever we find money, we also find the story. At one point, in the town of Arivonimamo, in Madagascar, I had the privilege of interviewing a Kalanoro, a tiny ghostly creature that a local spirit medium claimed to keep hidden away in a chest in his home. The spirit belonged to the brother of a notorious local loan shark, a horrible woman named Nordine, and to be honest I was a bit reluctant to have anything to do with the family, but some of my friends insisted—since, after all, this was a creature from ancient times. The creature spoke from behind a screen in an eerie, otherworldly quarter. But all it was really interested in talking about was money. Finally, slightly exasperated by the whole charade, I asked, “So, what did you use for money back in ancient times, when you were still alive?”

The mysterious voice immediately replied, “No. We didn’t use money. In ancient times we used to barter commodities directly, one for the other . . .”



The story, then, is everywhere. It is the founding myth of our system of economic relations. It is so deeply established in common sense, even in places like Madagascar, that most people on earth couldn’t imagine any other way that money possibly could have come about.

The problem is there’s no evidence that it ever happened, and an enormous amount of evidence suggesting that it did not.

For centuries now, explorers have been trying to find this fabled land of barter—none with success. Adam Smith set his story in aboriginal North America (others preferred Africa or the Pacific). In Smith’s time, at least it could be said that reliable information on Native American economic systems was unavailable in Scottish libraries. But by mid-century, Lewis Henry Morgan’s descriptions of the Six Nations of the Iroquois, among others, were widely published—and they made clear that the main economic institution among the Iroquois nations were longhouses where most goods were stockpiled and then allocated by women’s councils, and no one ever traded arrowheads for slabs of meat. Economists simply ignored this information.<sup>15</sup> Stanley Jevons, for example, who in 1871 wrote what has come to be considered the classic book on the origins of money, took his examples straight from Smith, with Indians swapping venison for elk and beaver hides, and made no use of actual descriptions of Indian life that made it clear that Smith had simply made this up. Around that same time, missionaries, adventurers, and colonial administrators were fanning out across the world, many bringing copies of Smith’s book with them, expecting to find the land of barter. None ever did. They discovered an almost endless variety of economic systems. But to this day, no one has been able to locate a part of the world where the ordinary mode of economic transaction between neighbors takes the form of “I’ll give you twenty chickens for that cow.”

The definitive anthropological work on barter, by Caroline Humphrey, of Cambridge, could not be more definitive in its conclusions: “No example of a barter economy, pure and simple, has ever been described, let alone the emergence from it of money; all available ethnography suggests that there never has been such a thing.”<sup>16</sup>

Now, all this hardly means that barter does not exist—or even that it’s never practiced by the sort of people that Smith would refer to as “savages.” It just means that it’s almost never employed, as Smith imagined, between fellow villagers. Ordinarily, it takes place between strangers, even enemies. Let us begin with the Nambikwara of Brazil. They would seem to fit all the criteria: they are a simple society without much in the way of division of labor, organized into small bands that traditionally numbered at best a hundred people each. Occasionally if one band spots the cooking fires of another in their vicinity, they will send emissaries to negotiate a meeting for purposes of trade. If the offer is accepted, they will first hide their women and children in the forest, then invite the men of the other band to visit camp. Each band has a chief; once everyone has been assembled, each chief gives a formal speech praising the other party and belittling his own; everyone puts aside their weapons to sing and dance together—though the dance