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Barter System Signals Harmony in Causality,
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Abstract: "Is there money involvement in seemingly pure barter transactions?" or "Will we come back to "penniless" exchange?" The answer is looking into our concept about barter according to our concept of money. Refracted through the corporate paradigm, the barter system is an economic group. Relationships within the group correspond to the free economy paradigm /pure market economy/. Some financial features occur in pure form in the barter system. Relationships of this kind include: income, the barter money, issuance activity, clearing, currency exchange issues, interest-free loans, issues of risk management, cost of capital, return, budgetary planning and their management, value assessment, capital needs issues, restructuring, public finance etc. Whether and how the barter system can show sustainability and reliability, and what defines its performance can be studied by applying principles of corporate finance throughout the usual understanding of trade linkages.

Key words: money, modern barter system, corporate finance, economic groups

JEL code: *E40, G31, G32, D71*

Introduction

Traditionally, barter is seen as archaism in which products are exchanged without money involvement. Nowadays in a word that monetary evolution has reached its peak in the form of electronic money and related accounting records of payment instruments; galloping innovation in the financial sector bordering science fiction; at the same time a seeming anachronism like barter systems is developing. Some questions arise however. "Is there money involvement in seemingly pure barter transactions?" or "Will we come back to "penniless" exchange?" The answer is looking into our concept about barter according to our concept of money.

Through the frame of the notion

One presumption can be expressed here that “barter exchange” is not penniless exchange and its monetary nature is a stone made as a intrinsic characteristic of the exchange itself.¹

Barter system can be viewed from different positions, but its systematic economic essence can be presented simultaneously from at least two perspectives. The first one is as a type of complementary currency involved as a mediator in the relations of exchange between business organizations and individuals. The second perspective is as a corporate body. The phenomenon of "local money" is examined primarily as a **means of social identification**, whilst its business concept is less well-established. That is why there is vacant space in the corporate theory where one can possibly situate the modern barter systems. One special condition for its existence, however, is the presence of a homogeneous social environment in which relations of exchange can be developed, but if only a minimum required level of trust between participants in the system exists.

"The intrigue is the power of the weak ..."²

Gresham's law states “Bad money drives out good”. Hence, from this rule’s view, barter system can possess certain sustainability. The smaller the value in the medium of exchange issued by the barter system, the easier it is to use it for the exchange and therefore, it becomes the **preferred mediator**.

The essence of money is often beautified with the results it contributes to, namely large-scale investment projects and technological progress but when we look at its shadow, we can see that money is the reason for undesirable consequences of these same industrial-banking relationships. Most frequently, money is seen as a commodity. But is this actually true? Is money represented by the goods and thus acquires their image? However money is not goods at all. This has to be analyzed and hence confirmed or refuted. Sometimes money is perceived as power, energy, trust, value, wealth and so many things. From this point, its functional role is least contradictory. Money’s main task however is to serve to the exchange. And when it begins to be used for anything other than exchange, the relationships in the real business processes are being destroyed and eventually the earlier "money" forms are to be replaced by some new ones. So far everything contributes to the

¹ The understandings of S. S. Demostenov, and Max Weber are shared here. This is not necessarily in conflict with the leading economic doctrines: Classical and Keynesian. Similar thoughts about the connection between money and exchange are not found only in monetarists concepts.

² William Shakespeare

assumption that money is in the position of a **communication channel** and as such money becomes an **organizing factor of the exchange**. And the exchange contains money in itself due to its very essence.

The next circumstance which implies the above statement is the existence of “cost of money”. The official money issued by the power and the trust or the state brings discomfort and becomes a non-preferred tool in the times of a crisis. This is because this type of money is "expensive" money and business agents must first pay for it and only then realize the value created by it through the process of the exchange. In times of prosperity, this fact is not as significantly pronounced as in periods of crisis. That's why during a crisis the **barter system smoothes out the sharpness of the economic cycle by substituting "expensive" money**. And although there are some inconveniences and disadvantages in the barter exchange, it is becoming the preferred exchange channel. Expensive money is being transformed into their **thoughts equivalents** and due to the modern communication system the newly develops money does not face any difficulty to cross national boundaries. Barter or local money can hardly become legal tender or a higher rank tool, but there are sufficient reasons to believe that within the homogeneity of the environment from which money is derived, it can become the preferred tool.

Money is free and safe communication channel in the realization of the **self-insufficiency** of economic agents.

The Realia

Historically, the form of money has been changing, but essentially - is grounded firmly on mediation and when the cost of mediation comes out of some acceptable limits, i.e. becomes too expensive - players create "a bypass" and segregate currencies. An example is the cash balances in the American banking system at the end of 2012. According to the World Bank about \$ 2.2 billion stay in the banking system and there is no available channel to return it to business circulation.³

Additional preconditions for the easy implementation of the modern barter system are the facts from globalization process amongst which:

- 1) The existence of quick and easy access of the economic agents to any resource, which brings with it a seamless dissemination of the effects of human activity, including both the desired and undesired ones;

³ The credit channel is not a proper way during crises.

- 2) Distances are not an obstacle to any type of communication;
- 3) A growing virtuality;
- 4) Presence of planetary connections through various types and scales of networks and networks of networks;
- 5) It is on the way to be proved that the world is completely perceptual and all realities are the result of people's imagination. And probably for just these reasons all the attempts for life to be completely objectified are failing. If we accept that the economic life merely as a result of human activity and not of the power beyond individuals, then we must admit the subjective nature of economic processes and to restrain from counteracting them. And also to stop attempting to control economic activity but identify an approach that can lead to satisfaction from it.

Corporate paradigm and financial aspects

Refracted through the corporate paradigm, the barter system is an economic group. Relationships within the group correspond to the free economy paradigm /pure market economy/. Again, this understanding is expressed by taking into account the lack of regulations that destroy natural proportions in the income formation, distribution and redistribution. It is proved that whether as a rational or irrational⁴ being, a man shows his preferences in his behavior. **This implies the formation of sustainable interconnections forming that are not affected significantly by the organization and structure of the financial system.** The latter occurs in pure form in the barter system as well. Relationships of this kind include:

1. Forming, distribution and redistribution of **income** of the persons enrolled into barter system.
2. **The barter money** is both complementary and alternative funds, as the participation of an economic agent in the barter organization does not oblige him to enter into exchange, but only requires exchange to take place without the use of legal tender. In this sense, the barter organization creates money, i.e.: you can consider the issues of its **issuance** activity.
3. The barter organization (barter company) becomes a center of settlement of reciprocal balances, which turn it into a **clearing house**.

⁴ Dan Ariely (The behavior economic paradigm)

4. A need for exchanges between barter systems appears which addresses to **currency exchange issues**. From this “above-local” perspective" level monetary affairs appear.

5. Essentially, the purchase of products in barter system is a form of **interest-free loans**. Each purchase requires less or no cash. The credit is carried out without interest included.

6. The previous circumstance leads logically to a lower financial risk and therefore **issues of risk management** - general and specific (including financial) for the barter company and the system as a business group.

7. Lower financial risk reduces overall risk and hence reduces the overall cost of capital (**WACC**).

8. Total risk and cost of capital correspond directly with the **return** as a measure of the effectiveness and as management issue.

9. A possibility to optimize the **cost** exists in the context of lower total risk (business and financial). There is also an opportunity to optimize **revenue** which can lead to a synergetic effect. The goal appears here to attract more participants aiming wide circle of potential users.

10. When a certain level of development of the system has been achieved it is possible to be **planned** its financial results, and this can be treated as a specific risk reducing effect.

11. The next stage of forecasting is **budgetary planning and their management**.

12. Whilst reaching the “natural limits” of the barter system, a problem of its expansion arises, which in essence is the **assessment of its value** - on the one hand, as a value of a company i.e. as a clearing house and on the other, as an economic group.

13. At every stage of the barter system development the necessity arises to define additional **capital needs**.

14. Given that the economic cycle will eventually turn back to expansion or the economic and social priorities of the participants may change, some questions appear. These are questions related to strategies for leaving the system (**EXIT strategy**), and hence the cost of **restructuring** and dealing with possible income distribution generated in the system.

15. Matters of **public finance** at the local level are also affected, because barter money, although being "privately" issued, i.e. created as symbols of value, is used publicly. This turns it into **public goods**, which is used for intra-group exchange relations.

16. Barter system as a union of the economic interests of a large number of players, governed by present rules of behavior, manifesting itself as an **economic group**, including: 1) intergroup behavior and income distribution and 2) behavior of the economic group as a single body.

At the end of the beginning

Whether and how the barter system can show sustainability and reliability, and what defines its performance can be studied by applying principles of corporate finance throughout the usual understanding of trade linkages. It is a well known rule that if you behave in an identical way, it leads to the same result. And as far as existing results do not satisfy us, an experiment needs to be done. Alternatives need to be provided with the opportunity for verification; even if they remain valid only for the time until replacement by something new. In human relationships, particularly in **monetary interconnections** only the empirical experiment has the ability to report results. This experimental stage can possibly be used as a measure of human freedom.

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