

As we all know, a shortage of both *cash and credit* has developed in consequence of the economic downturn. Recently, I have been informed that barter is beginning to appear locally as a way to trade goods and services. In some states, towns are actually printing up their own currencies, while online barter exchanges have appeared across the land. Being a free market advocate, I am both gratified and amazed how quickly people, left to their own devices, will resolve their mutual financial challenges. Besides being of great utility, such exchanges are often humorous at a time when we need a good laugh.

In colonial America specie, metallic coins, were chronically in short supply, and barter was, of course, both common and highly developed. In 1737, one, John Higley of Massachusetts Bay Colony, being possessed of a small copper mine and a taste for Scotch whiskey, struck his own three-penny pieces, that being the current price of a dram. However, John's prodigious thirst soon flooded the tiny town with his coins, and the value began to drop, whereupon the seventy-five year old withdrew. After a short absence, he reappeared at the local tavern with a new version, inscribed with the motto, "I am good copper. Value me as you please." When it was discovered that his coins assayed at 95 to 96% pure copper, they were gladly accepted in trade. Today, the few remaining examples are highly prized by collectors, and just one would be enough to keep the owner in strong drink for his entire lifetime.

However, barter, arranged in the *absence* of money, can be awkward. The classic examples are from English author W. Stanley Jevons, who, in his monumental 1898 tome entitled, *Money and the Mechanism of Exchange*, explained some of the pitfalls of a money-less economy in his amusing first chapter:

"Some years since, Mademoiselle Zélie, a singer of the Théâtre Lyrique at Paris, made a professional tour round the world, and gave a concert in the Society Islands. In exchange for an air from (Vincenzo Bellini's) *Norma* and a few other (arias), she was to receive a third part of the receipts. When counted, her share was found to consist of three pigs, twenty-three turkeys, forty-four chickens, five thousand cocoa-nuts, besides considerable quantities of bananas, lemons, and oranges. At the Halle in Paris, as the prima donna remarks in her lively letter, this amount of live stock and vegetables might have brought four thousand francs, which would have been good remuneration for five songs. In the Society Islands, however, pieces of money were very scarce; and as Mademoiselle could not consume any considerable portion of the receipts herself, it became necessary in the mean time to feed the pigs and poultry with the fruit."

(You can imagine the lady's predicament, for as she might have done with 4,000 francs in bank notes, and even given the monumental opera divas of the time, she would have had difficulty in stuffing even one turkey and a couple of coconuts in her presumably ample bosom.)

Next, Jevons describes a barter with the opposite difficulty:

“When Mr. Wallace was travelling in the Malay Archipelago, he seems to have suffered rather from the scarcity than the superabundance of provisions. In his most interesting account of his travels, he tells us that in some of the islands, where there was no proper currency, he could not procure supplies for dinner without a special bargain and much chaffering upon each occasion. If the vendor of fish or other coveted eatables did not meet with the sort of exchange desired, he would pass on, and Mr. Wallace and his party had to go without their dinner. It therefore became very desirable to keep on hand a supply of articles, such as knives, pieces of cloth or sago cakes, to multiply the chance that one or other article would suit the itinerant merchant.”

(Somehow I can't help imagining Mademoiselle Zélie and Mr. Wallace's party meeting on a jungle path in far away Malaya, but more about that later.)

Now, so far in the preceding accounts, we have noted two forms of exchange, so-called direct exchanges between two parties, and those which involve a third party, such as an on-line service or broker. A third form can be identified as when the second party wishes to trade something of which you have no need, but which you are reasonably certain you can trade to a third party for what you want. In effect, you are using the interim good or service in place of money. To be successful in this you must be aware that a suitable money substitute must have at least some of the following attributes:

- 1) It should be a store of value**
- 2) It should be portable**
- 3) It should be of uniform quality**
- 4) It should have wide appeal**
- 5) It should be easily recognized**
- 6) It should be evenly divisible**
- 7) It should be of small compass**
- 8) It should be easy to value**
- 9) It should pass from hand to hand without diminution**

Now that we have some touchstones established, let us quickly revisit the characters in our little 3 act history:

First, John Higley:

While his Three Penny Piece looked like money, was stamped with its monetary value, and seemed like pure copper, so that it filled most of the requirements for a money, that is:

- 1) It was a store of value**
- 2) It was portable**
- 3) It was of uniform quality**
- 4) It had wide appeal**
- 5) It was easily recognized**
- 6) It was evenly divisible, assuming you only wanted a beer**
- 7) It was of small compass**
- 8) It was easy to value**
- 9) It was passed from hand to hand without diminution**

But John did something remarkable. When he returned to his tiny mint, by removing the denomination of 3 cents, he converted his coin from money to a commodity, where it was considered to be far more valuable as an alloy for gold.

Next, Madamemoiselle Zélie, who found that most of her receipts failed to provide:

- 1) A store of value (the fruits and vegetables would rot in the tropical heat)**
- 2) Easy portability (she could have brought them aboard her ship), but...**
- 3) Wide appeal (how appealing would they have been to other passengers?)**
- 4) Easily recognized (oh, yeah!)**
- 5) Even divisibility, assuming you only wanted a beer? (5000 coconuts is a lotta beer!)**
- 6) Small compass (are you kidding? It was hard enough to get that turkey down there!)**

And finally, Mr. Whipple and his party:

In our fantasy encounter with these proper English gentlemen, imagine them, in their hungered state on that small island in Malaya, when just at dusk the apparition of a dark-haired, well-rounded angel approaches them carrying a virtual feast around her neck, all for the price of a paring knife to slice her

bananas, lemons and oranges.

Now we can't always make such great exchanges, but the more we can learn about the attributes of a successful money-substitute, the better our liquidity, and liquidity is the essence of money, and of our business survivability in difficult times.

You may have never thought of them quite in this way before, but on the table in front of me I have two rather different items, a bottle of one of sponsor Shannon Ridge's favorite reds, and a Swiss Army knife. Both possess in varying degrees all nine requirements I listed for highly effective money-substitutes.

Prost!

PAUL...