

[Doing the trade thing the wrong way](#) [1]

Written by [Tim Worstall](#) [2] | Monday 14 April 2008



This doesn't bode well for the collective intelligence of our [rulers](#) [3]:

Governments are racing to strike secretive barter and bilateral agreements with food-exporting countries to secure scarce supplies as the price of agricultural commodities jump to record highs, diplomats and cereal traders say.

How marvellously insensible, replacing the information flow of market pricing with the bounded knowledge of the bureaucrat making plans.

How is that bureaucrat going to estimate the demand for wheat, say, or bread, or flour, as tastes, technologies and prices change? He can't, of course, it is simply impossible, as Hayek pointed out (and no, "socialist calculation" doesn't work either). If, however, in the face of changing prices, the assumption is simply that what will be demanded next year is the same amount as was demanded this, then the vital information those rising prices contain will simply be being ignored. For example, that it's about time to look for a substitute or two.

Now if countries really were worried about basic food supplies, about the ability of the population to ingest the necessary daily calories, there is in fact a much easier solution for them. Simply buy futures on the commodity markets and hold them until maturity and ask for delivery in kind. That's actually what they are there for, after all.

The added bonus here is that politics doesn't come into it. Instead of Syria and Egypt (an actual example) needing to be politically friendly in order to sign a deal, they can both deal with the entirely amoral market. Further, in such a barter deal, (again, from the real example) the import of rice from Cairo to Damascus is dependent upon the export of wheat from Damascus to Cairo. And what if the wheat crop in Syria fails? Does that also mean no rice in the country as well?

No, far better that the products themselves are exchanged for money and then the money used to purchase from anyone with the requisite goods. That is why we invented money, after all, to free us from the tyranny of having to barter for everything.

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