

Traditional Economy with Its Characteristics, Pros, Cons, and Examples

The Five Traits of a Traditional Economy.

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A traditional economy is a system that relies on customs, history, and time-honored beliefs. Tradition guides economic decisions such as production and distribution. Societies with traditional economies depend on agriculture, fishing, hunting, gathering, or some combination of them. They use barter instead of money.

Most traditional economies operate in emerging markets and developing countries. They are often in Africa, Asia, Latin America, and the Middle East. You can also find pockets of traditional economies scattered even in developing countries throughout the world.

Economists and anthropologists believe all other economies got their start as traditional economies. Thus, they expect remaining traditional economies to evolve into market, command, or mixed economies over time.

A market economy is a system where the laws of supply and demand direct the production of goods and services.

A command economy is where a central government makes all economic decisions. Either the government or a collective owns the land and the means of production.

A mixed economy combines the characteristics of the other three.

Traditional economies base economic decisions on cultural values and beliefs. This economy relies on farming, hunting, and fishing. Several traditional economies have evolved into a mixed type that incorporates elements from capitalism, socialism, or communism. Traditional economies can be negatively affected by other economy types that use large amounts of natural resources



The Five Traits of a Traditional Economy.

First, traditional economies center around a family or tribe. They use traditions gained from the elders' experiences to guide day-to-day life and economic decisions.

Second, a traditional economy exists in a hunter-gatherer and nomadic society. These societies cover vast areas to find enough food to support them. They follow the herds of animals that sustain them, migrating with the seasons. These nomadic hunter-gatherers compete with other groups for scarce natural resources. There is little need for trade since they all consume and produce the same things.

Third, most traditional economies produce only what they need. There is rarely surplus or leftovers. That makes it unnecessary to trade or create money.

Fourth, when traditional economies do trade, they rely on barter. It can only occur between groups that don't compete. For example, a tribe that relies on hunting exchanges food with a group that relies on fishing. Because they just trade meat for fish, there is no need for cumbersome currency.

Fifth, traditional economies start to evolve once they start farming and settle down. They are more likely to have a surplus, such as a bumper crop, that they use for trade. When that happens, the groups create some form of money. That facilitates trading over long distances.

Traditional Mixed Economies

When traditional economies interact with market or command economies, things change. Cash takes on a more important role. It enables those in the traditional economy to buy better equipment. That makes their farming, hunting, or fishing more profitable. When that happens, they become a traditional mixed economy.

Traditional economies can have elements of capitalism, socialism, and communism. It depends on how they are set up. Agricultural societies that allow private ownership of farmland incorporate capitalism. Nomadic communities practice socialism if they distribute production to whoever best earned it. In socialism, that's called "to each according to his contribution."

That would be the case if the best hunter, or the chief, received the choicest cut of meat or the best grains. If they feed children and the elderly first, they're adopting communism. That's called "each according to his need."

Advantages

- Little or no friction between members.
- Everyone understands their role and contribution.
- More sustainable than a technology-based economy.

Disadvantages

- Exposed to changes in nature and weather patterns.
- Vulnerable to market or command economies that use up their natural resources.