Money:

What is it? What does it do?

https://joyinenough.org/resources/talks-and-sermons/

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Which of these has NOT been used as money?

- they have ALL been used as *means of exchange*

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Money provides a *means of exchange*

One of the things money does is to provide a **means of exchange**, something a person will accept in return for goods and services.

Basic requirements of such means of exchange include portability and enough supply to permit all the transactions people wish to make.

Money provides a *means of exchange*

Clam-shells - or *wampum* - were used in North America as legal tender for payments up to £2 between 1535 and 1661 – though the last factory drilling shells and putting them on strings to be used as money didn't close until 1860.

Money provides a *means of exchange*

Pouches of mackerel - or ‘macks’, are commonly used in US prisons as informal money to pay for haircuts, settle gambling debts, etc.

Formerly, cigarettes had served this function, but these were banned in 2004.

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Money provides a *means of exchange*

Tobacco served as legal tender in Virginia and Maryland for almost two hundred years (longer than the international gold standard).

Depositors were charged for keeping their tobacco money in warehouse banks, where it would deteriorate anyway, so encouraging people to spend it (or smoke it!) rather than hoard it.

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Money provides a *means of exchange*

Poker chips – or to be accurate porcelain counters from local gambling houses – were used as money in some cities in 19th century Siam (Thailand).

If one of these casinos went bust it would send a town crier around to announce that anyone holding its tokens had up to three days to redeem them.

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Money provides a *means of exchange*

Disc-shaped *stones* known as *fei* were used as currency in the Yap group of islands in the central Pacific up until the 1960s.

These were quarried on islands hundreds of miles away, and shaped into different ‘denominations’ varying in size from a saucer to a millstone.

Larger specimens had holes in the middle, through which poles could be inserted to help with moving them about.

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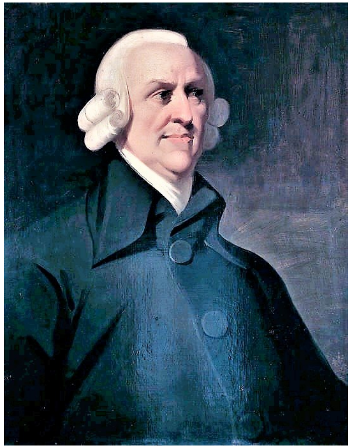
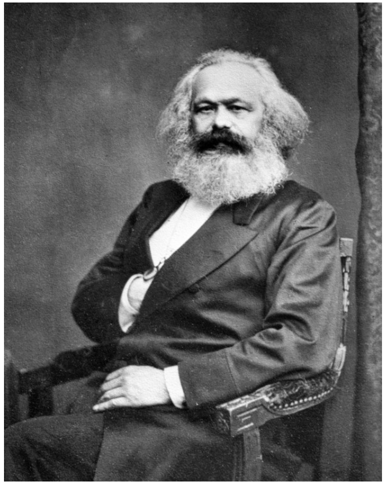
What is money? Money as commodity



According to the **commodity theory of money**, money represents the objective value of other things - land, labour and the processes of production.

This has proved to be a popular way of understanding money over the years. Even Adam Smith and Karl Marx agreed about this, wherever else they might have differed.



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Money as commodity

On this view, money itself is an intrinsically valuable proxy commodity.

This is why coins made from rare metals such as silver and gold have so often been used as money – though the oldest coins known date from as recently as the 7th century BC.

The Biblical shekel was originally the weight of silver equivalent to a bushel of barley.

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Money as commodity

According to the commodity theory, people originally devised money as a way of escaping the limitations of simple **barter** transactions.

If I want an orange and have only bananas to offer, but the person holding oranges doesn't want my bananas, I have a problem.

But if we can agree on a third, general-purpose commodity (money) which we *all* want, then life becomes much easier for everyone.

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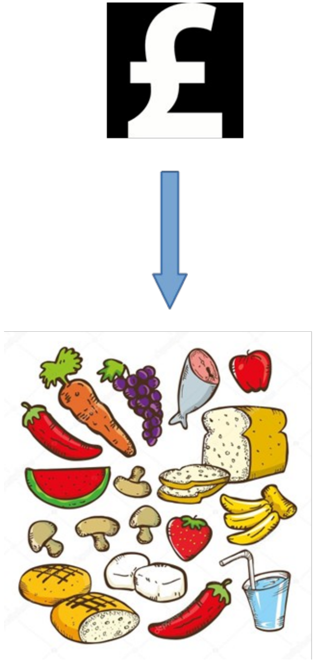
Money as commodity



commodity

Of course, a gold coin isn’t otherwise very *useful* in itself – i.e. you can’t eat it, wear it, make a shelter out of it, etc. But, as money, it can be exchanged for other things which *are* useful.

And it can be exchanged with anyone, including strangers or others you don’t trust (unlike an IOU).

According to the commodity theory of money, then, money represents the use-value of other, intrinsically useful things.

Which units of account did the accountants of Homer's day (8th century BC) use?

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Which units of account did the accountants of Homer's day (8th century BC) use?

There's no evidence that cattle were generally used as means of exchange, as were clam shells, tobacco, silver coins, etc.

That is, they didn't change hands, but rather simply provided a *unit of account*.

Money provides a *unit of account*

Because it's essentially an abstract quantity, absolutely anything can be used as a unit of account.

Essentially a unit of account is a book-keeping device, enabling people to keep track of what's been bought and sold and who owes how much to whom.

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Money provides a *unit of account*

It also enables people to compare the relative value of different kinds of things, by providing a common yardstick against which they can all be measured. This is why Aristotle called money the 'middle term', 'for it measures all things'.

Money as unit of account therefore serves as an abstract general equivalent, so in principle represents **sheer quantity**, a means of consistently comparing the relative value of a set of **qualitatively different things** - like chalk and cheese.

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What is money? Money as credit and debt

The Mesopotamian Code of Hammurabi, from around 1750BC, shows that ‘money’ was originally an accountancy system created in order to keep track of resources and to record what was owed to whom.

Although silver was held in the treasury, it seldom actually changed hands. In general, people ‘ran up tabs’ denominated in silver, but settled up at harvest time not through payment in silver, but in barley or anything else which the creditor was willing to accept.

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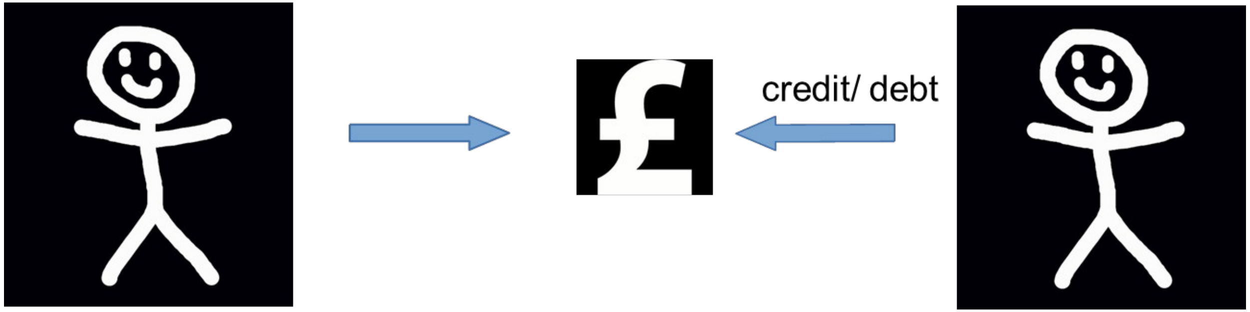
Money as credit and debt

This is an example of **money as an IOU**, the token of a social bond between creditor and debtor. These tokens need not have any intrinsic value. This is the **credit theory of money**: **money is not itself wealth, but rather a claim on wealth.**



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Money as credit and debt

More recent examples of money as credit include the various LETS, or Local Exchange and Trading System, schemes which have sprung up spontaneously across the world.

These local currencies, produced by communities rather than the government, are popular with people living in the same town or area who have limited access to the national currency, e.g. when a major local employer closes down or during a time of recession.

Well-known recent UK examples include the Bristol and Lewes Pounds, and various Time Banks, which enable people who are relatively money-poor but time-rich to exchange goods and services which otherwise they couldn't afford.

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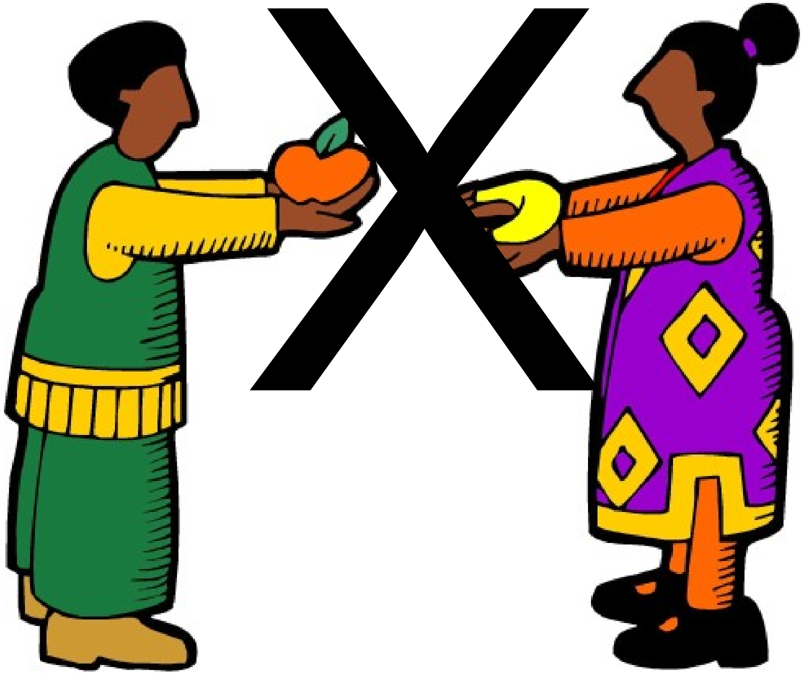
Money as credit and debt



Credit and debt were probably the earliest form of economic transaction.

Contrary to popular belief **barter**, the simultaneous exchange of one item for another, is probably a relatively recent invention. As anthropologist David Graeber put it:

‘We did not begin with barter, discover money, and then eventually develop credit systems. It happened precisely the other way around… Barter… has mainly been what people who are used to cash transactions do when for one reason or another they have no access to currency.’

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What weight of sterling silver could you buy for £1 in 1900?

a) 1 lb

b) 4 lb

c) 4 oz

d) none

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What weight of sterling silver could you buy for £1 in 1900?

c) 4 oz

Originally, back in the 8th century, 240 silver pennies together weighed exactly 1 lb (12 pence per shilling, 20 shillings per pound), but the silver content of these pennies had been successively debased over time.

4 oz of sterling silver to the £ was set as the standard exchange rate by Queen Elizabeth I in 1560. This standard lasted until World War I – a record!

It remained intact for 350 years despite the fact that the actual silver content of a minted pound coin varied greatly during that period. The £ sterling therefore served as an excellent *store of value.*

Modern £1 coins contain no silver at all (they're mainly copper).

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Money provides a *store of value*

Silver and gold have been popular choices for coinage across history because they satisfy the third function of money, as a **store of value**.

The supply of precious metals is limited, which means they tend to hold their value.

Also, unlike the tobacco used in Virginia or the grain used in ancient Egypt, precious metals don’t spoil.

This means that I can accumulate money over time, secure in the knowledge that I have only the thief and the taxman to fear!

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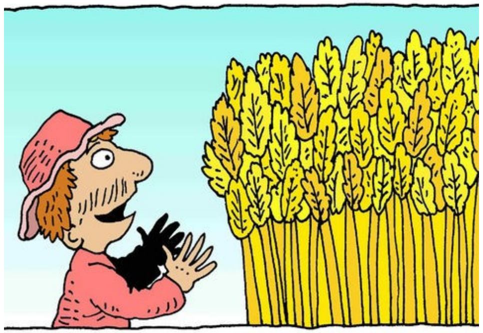
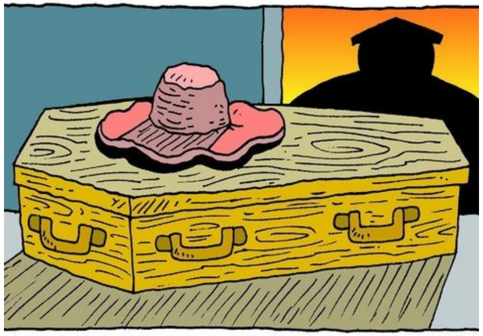
Jesus on storing value:
Luke 12: 16-21



Of course there's one other threat to the value of your savings: death. One of Jesus' parables is about a wealthy landowner who enjoyed such a good harvest that he had to build more barns to accommodate it all.

His harvest was acting as a store of value for him, provided he didn't keep it in storage *too* long.

Jesus' point is that our ability to store value – to be lords of time as it were – is always limited, one way or another.



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So: what does money do?

Money provides

- a **means**, or medium, **of exchange**
- a **unit of account**
- a **store of value**

But: can it do these things all at once?

Andrew Marr interviews Philip Coggan on *Start the Week*, 16 January 2012:
https://www.bbc.co.uk/programmes/b019f8b5
(first 8 minutes of the programme)

‘Money has to be two very, very different things at the same time’

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‘Money has to be two very, very different things at the same time’

Means of exchange

pressure to create more money
- favoured by DEBTORS (borrowers)

Store of value

pressure to limit money supply
- favoured by CREDITORS (savers)

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BORROWERS:
'Expand money supply!'

SAVERS:
'Restrict money supply!'

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‘Over the last 40 years we have had **no constraints of the creation of money**; and it has all been used to buy assets.

‘So we’ve had this **series of bubbles in which borrowed money has been used to buy houses, shares**, whatever. And every time the result of that has been that the finance sector has expanded very rapidly.

‘**So Wall Street now depends on the Central Bank to prop up asset markets** and keep prices high.

‘We’ve created more *claims on wealth* than we have *wealth itself* – that’s the problem’

‘We’re not going to pay these debts back’

Options?

- default
- inflation (allowing money to lose value)
    - *both are ways of reneging on past promises*

‘One way or another, something negative will happen’

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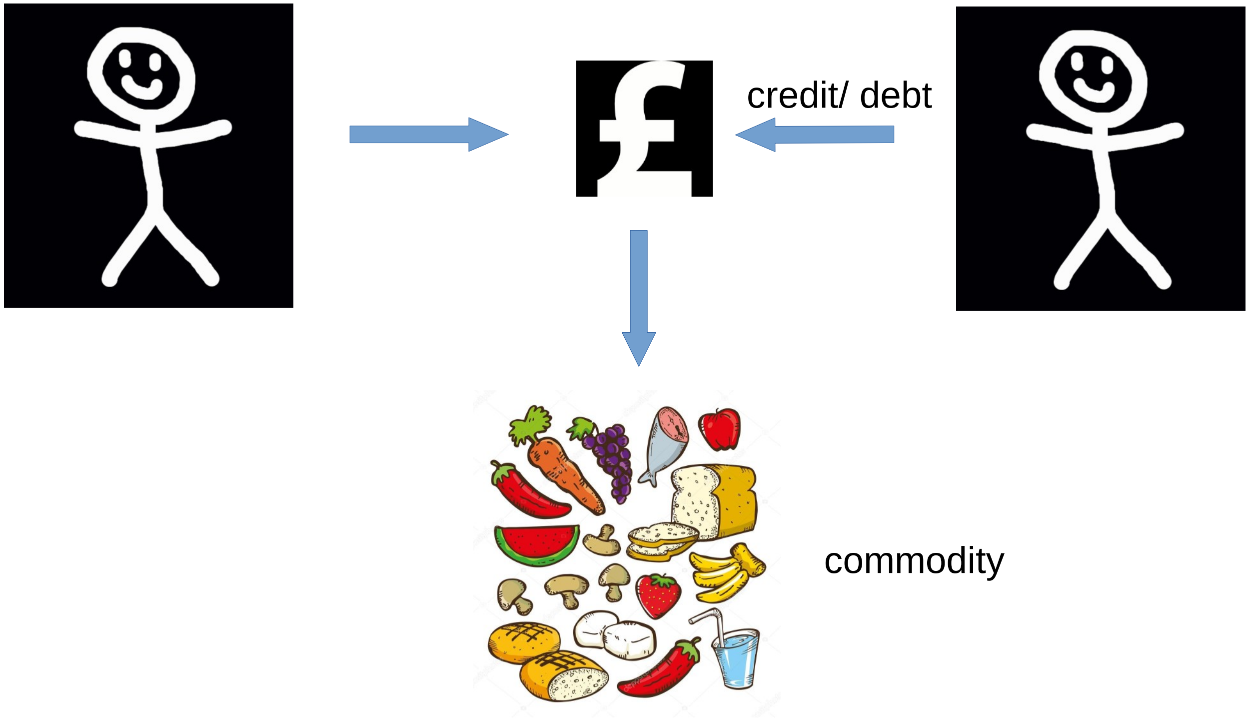
So: what is money?



Money as tax

Finally, money can also be seen as whatever the government will accept in payment of taxes.

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Money as tax

Rulers have always been short of cash, especially when it comes to funding military campaigns. In the past they needed large amounts of cash in the form of coinage in order to pay their troops.

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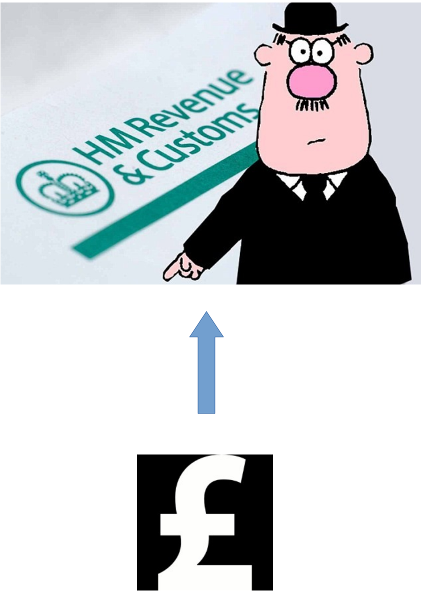
Money as tax



tax

Taxation has been a major source of revenue for rulers throughout history.

Whereas, traditionally, a local landowner might have accepted a proportion of his tenants' harvest as a tithe, a distant emperor might well prefer tribute in coinage. This led conquerors to impose a cash economy on the inhabitants of conquered lands, in order to expedite the payment of tax.

This is the **state theory of money**, or **Chartalism:** 'money' is whatever the state will accept as tax payment.

So the Bank of England's 'promise to pay the bearer on demand the sum of five pounds' really means 'the government promises to accept this £5 note as (partial) settlement of your tax bill'.

But what about local currencies, which the state doesn't recognise in this way?

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Money as tax

The Wära was a local currency introduced in Schwanenkirchen in Germany during the 1920s. This was at a time of hyperinflation of the national currency which had driven many businesses into bankruptcy.

The Wära proved very popular, enabling the local coal mine to re-open and revitalising the local economy.

It began to be adopted further afield, with more than 2000 businesses across Germany using the Wära as a means of exchange.

However the German central bank came to see the Wära and other local currencies as a threat to the status of the reichsmark. As a result, these local currencies were declared illegal in 1931.

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Jesus and Chartalism

Mark 12: 13-17: ‘Is it lawful to pay taxes to the emperor?’

This story is an interesting illustration of the state theory of money, whereby money is created and distributed by the state in order to recover it as tax.

The Romans introduced their coinage, the denarius, across the empire and imposed taxes payable only in this medium.

In effect this was a mechanism for exploiting tax-payers, using military force to compel people to convert their local wealth into a form that would sustain and enrich imperial Rome.

Introducing a foreign currency, and insisting that taxes be paid in this medium, has been a common way in which colonial powers have asserted their authority across the centuries.

This exchange shows how, in using money, we implicitly acknowledge some human authority. Jesus forces us to ask: Does that fit with living under *God’s* authority?

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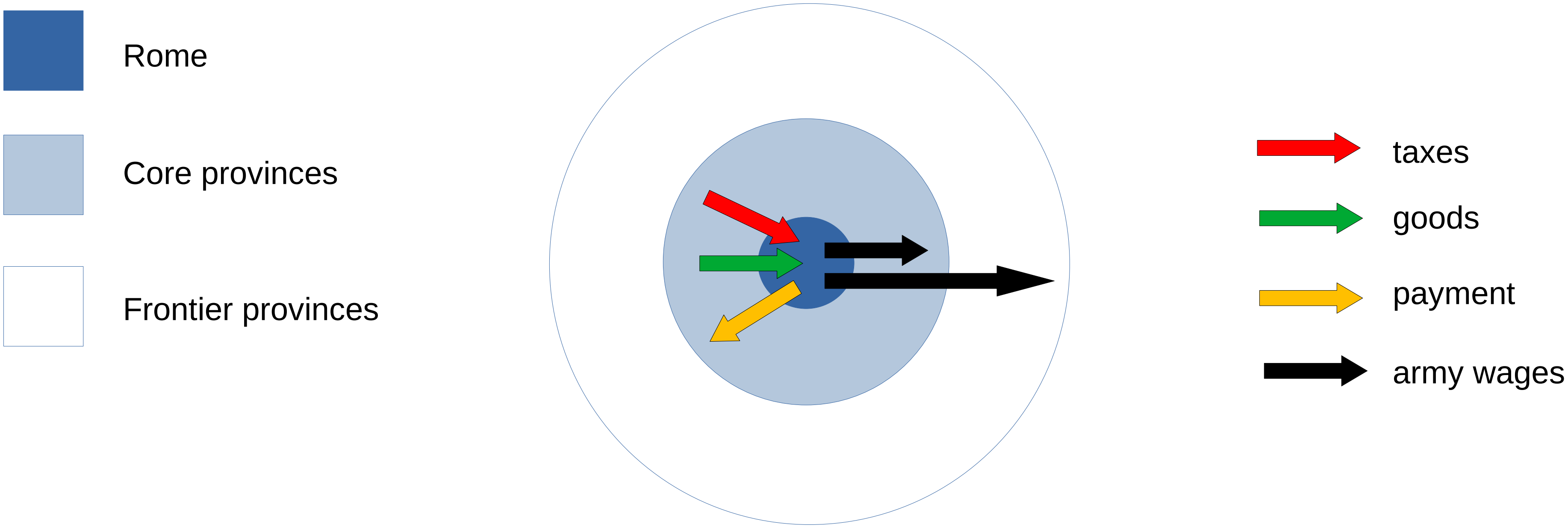
Armies, taxes & imports: the Roman business model



Money as tax

Of course, the state need not require tax to be paid in metallic coins. It could choose anything it likes – it could for example print and distribute its own IOUs and insist that tax be paid with them. This is an example of a **fiat money system**, in which a government declares a particular currency, not backed by any physical commodity, to be legal tender.

Since the most recent version of the international gold standard collapsed in 1971, fiat money has been the norm across the world.

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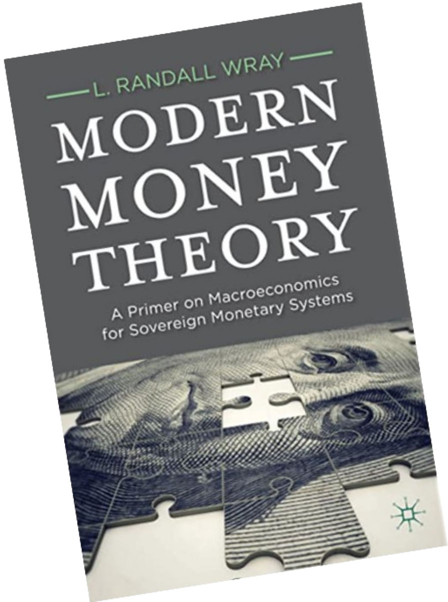
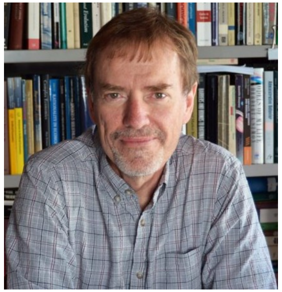
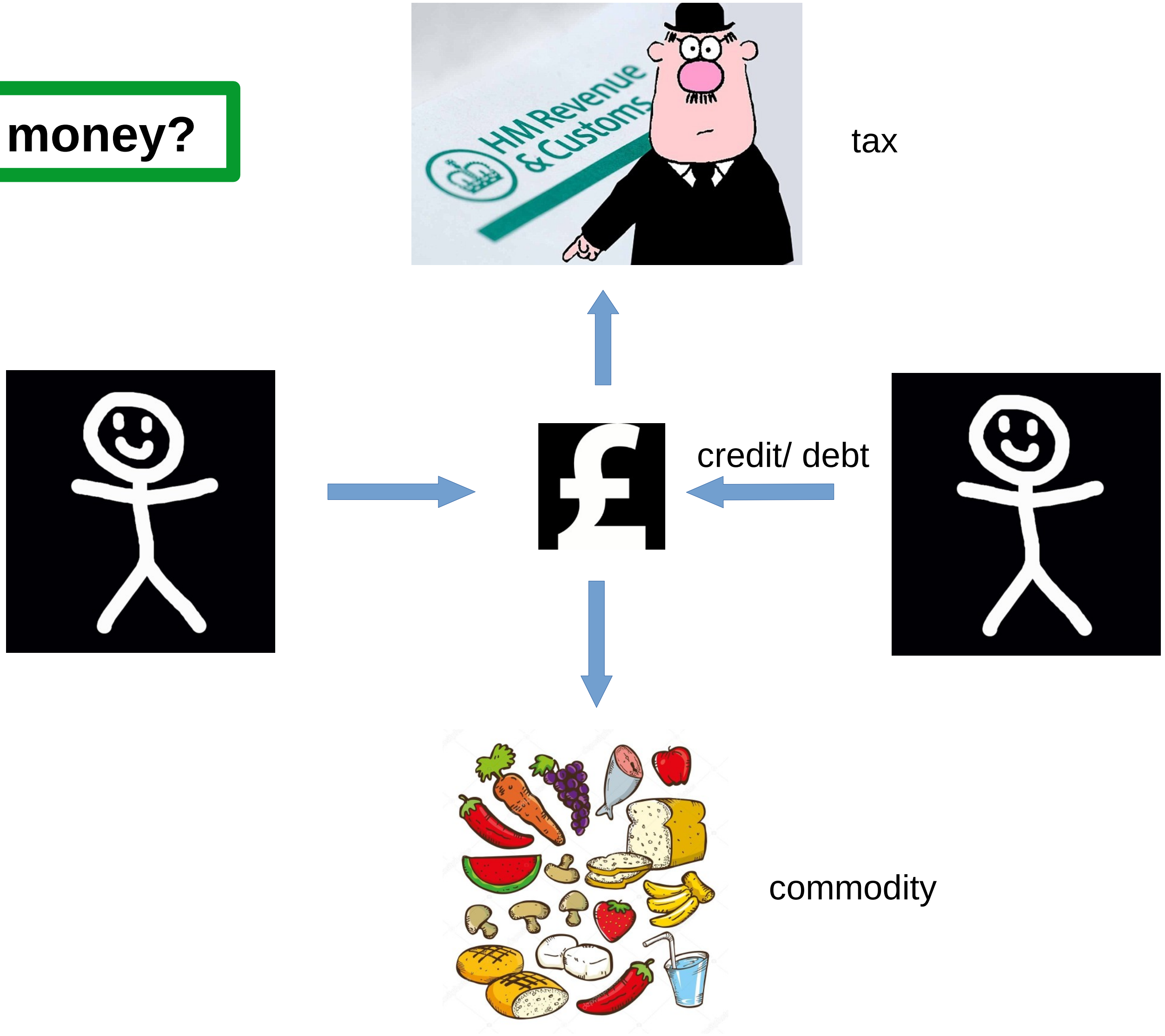
Helicopter Money: watch the skies



- Nations operating a **fiat money system** and issuing their own **sovereign currencies** (e.g. UK, US, Japan, but not Eurozone countries) can never run out of money
- In effect they have a **Magic Money Tree** which can bear fruit at will
- (However if this money is not put to productive use then **inflation** can become a problem)
- So governments impose **taxation** not in order to raise funds but rather to:
  - 'infuse the sovereign fiat money with authoritative value', i.e. oblige citizens to acquire and use the state's fiat currency
  - remove money from the economy
- **'Helicopter money', i.e. money created by central banks & granted directly to citizens by governments**, has been suggested as a way out of the post-2008 Great Stagnation



So: what is money?



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What have we learned?

Three ways of understanding what money is:

- A **commodity** representing the value of other, useful things
- A relationship of **credit** and debt between people
- Whatever the government will accept as **tax**

Three things money does:

- It acts as a **means**, or medium, **of exchange**
- It provides a **store of value**
- It provides a **unit of account**

… and a single money system can struggle to do all these at once

Some reading suggestions

On money in general:

James Buchan, *Frozen Desire: An Inquiry Into the Meaning of Money.* Picador, 1998

Philip Coggan, *Paper Promises: Money, Debt and the New World Order.* Penguin, 2012

Richard Douthwaite, *The Ecology of Money*. Green Books, 1999
Online version

David Graeber, *Debt: The First 5000 Years.* Melville House, 2012

Geoffrey Ingham, *The Nature of Money.* Polity, 2004

On Modern Monetary Theory:

Stephanie Kelton, *The Deficit Myth: Modern Monetary Theory and How to Build a Better Economy.* John Murray, 2021

New Economic Perspectives: MMT Primer

Bloomberg News 21 March 2019:
Warren Buffett Hates It. AOC Is for It. A Beginner's Guide to Modern Monetary Theory

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