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IDEAS FOR DEBATE

ELEMENTARY MONETARY CONCEPTS AND IDEAS PART 2: MONEY IS NOT A MEDIUM OF EXCHANGE

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ABSTRACT

In this second part on fundamental monetary concepts and ideas, the idea of money as a "medium of exchange", which is still strongly rooted in the complementary currency scene, is questioned. This idea and the definition of money from monetary functions are not tenable and must be questioned and replaced by better concepts if a real change in the monetary system is to succeed.

KEYWORDS

Monetary theory, functions of money, purpose, means of payment.

I used this “provocative title” already in a past contribution to IJCCR (Martignoni, 2018) as a chapter heading. The idea was, to explain that the common functional definition: money is a medium of exchange, which is used in practically all economics textbooks is misleading or worse: completely wrong. But as such details in long papers may be read but may not be understood as fundamental (as there is still no extensive debate about this topic), it is worth repeating and deepening¹. Therefore, I dare to cite a large part of that section of the article first (with slight corrections in language, style, and references) and will add some more aspects after:

“Money is not a medium of exchange: This provocative title is intended to help us check the claim that “money is a medium of exchange”, which is used in practically all economics books and the widespread definition of money. More and more scholars have been arguing otherwise. The analysis of the exchange and market conception is an important building block for an understanding of money, but even more, the collective aspects of monetary structures must be taken into consideration. Ingham (2004, p.69) makes it short: the focus on money, as a medium of exchange, results in a categoric error in which specific forms of money are mistaken for the generic quality of “money-ness”.

It is interesting to note that in ordinary textbooks of the national economy (for example, Samuelson, 2004) the exchange itself is not treated fundamentally, but presumed as a given.

A popular definition of exchange in the dictionary of business (Grüske / Recktenwald) says:

Exchange is the economic transfer of goods, the exchange of services based on the division of labour. Legally, exchange is a mutual contract, which is directed at the turnover of goods against goods, in contrast to the purchase, which is the turnover of goods against money due to prices.

Here even the purchase is referred to as a contrast for exchange. Also, in no other definition money gets introduced as an exchange category, but as part of the purchase. While in exchange someone receives directly from the partner a product or service, which he (hopefully) desired, at the purchase he receives a payment in money, i.e. several vouchers for which the exchange partner is not responsible, but unnamed third parties. The vendor expects that these vouchers (when he wants and at whom he wants) can be redeemed. The decisive point is not that the exchange is now divided into two separate acts, and that each of these two acts can again be represented as an exchange, commodity against money and money against commodity (Röpke, 1979, p.114), but with the introduction of money a change of the level from the individual to the collective took place. Röpke also mentions this shortly afterward (1979, p.116): money has therefore also been compared with an entry ticket to the “social product” (i.e. to the existing fund of goods and services), or as a “statement to the social product”. Röpke himself, however, doubts this point of view. Nevertheless, it is easy to see that money can only exist with “many” participants, i.e. in the collective. It must be recognized by a sufficiently large number of people and institutions, voluntarily or compulsory, otherwise it loses its money character quickly.

The first mistake in the “individualistic exchange theory” or commodity theory of money is therefore, that in the transition from exchange to money, money itself is presumed unquestioned and is taken as a commodity as it would just replace the exchanged good. Amato and Fantacci (2012, p.41) summon this up as follows: money properly called by its name is not a commodity based on the indistinguishability of its first two functions, but an institution designed to determine its relationship with a view to payment.

The foundation for money, however, is a collective that has already introduced money and the simplest and most effective introduction of money must also be done collectively, e.g. by the sovereign, or more recently by the modern manifestation of the sovereign, the state. Polanyi has already established this for social and historical reasons:

the state, [...] was in fact the guarantor of the value of token money, which it accepted in payment for taxes and otherwise. This money was not a means of exchange, it was a means of payment; it was not a commodity, it was purchasing power; far from having utility itself, it was merely a counter embodying a quantified claim to things that might be purchased. Clearly, a society in which distribution depended upon the possession of such tokens of purchasing power was a construction entirely different from market economy. (Polanyi, 2001, p.205).

From this point of view, money loses all the characteristics of exchange and commodity and is used as a means of legal remedy, primarily as a means of payment guaranteed by a community, usually to this day, by the nationalized large community called the state. This is reproduced everywhere by legislation on the money and the monetary system.”

(Martignoni, 2018, p.22-23)

But what if there is no medium of exchange and only a means of payment? And what about the functions of money as a useful definition anyway? The answer may not be so pleasant even for alert people who are trying to invent and introduce better forms of money as community or complementary currencies: If money and currencies were not to be defined by these functions, alternatives too would have to align themselves with other principles.

If we (I include myself here as a “money changer”) positively accept the search for other principles as a challenge, we can derive an even clearer mission from this, which must be addressed as an essential basis for changing money. It is necessary to gain a better understanding or awareness of the matter to be transformed. A very good guide to this can be found on Brett Scott's (fantastic) blog *Altered States of Monetary Consciousness (ASOMOCO)* in the article *How the 'Functions of Money' blind us to the Structure of Money*. He points out three important aspects of how we should start to see money more clearly, which I have adapted slightly here:

1. Firstly, we must start to draw the structure [of currencies and money], so that every time the word ‘money’ is uttered, a clear and full structural image appears, instead of sole individual aspects or dogmatic sentences from outdated economics. But we should be patient: we have a long way to go before the full structure reveals itself!
2. Secondly, we need not agree exactly on what the structure looks like, but we do need to agree that it should be foregrounded. This will be a major step forward from the current status quo, which simply refuses to foreground it.
3. Thirdly, we must be able to make a clear distinction between the individual experience of money - the everyday feeling of using money tokens at a street level - and the hidden structure which transcends that. Much like we experience the sun as a thing that ‘rises’ rather than something that stays fixed while the earth turns, there is a phenomenological realm of money that can differ from the reality of its structure, and - sometimes - the vague functional definitions can get by in this realm. When it comes to the politics of money, however, it is a downright deadly to stay in that realm.

(Scott, 2021)

When we embark on this journey to reshape our ideas about money, the confusion caused by false doctrines and their unreflected application in our understanding of the economy and money begins to clear up surprisingly quickly.

In this way, we can place the approach of currency functions in new contexts. Currency functions are not there to define money but are essential foundations of currency design, i.e. the art of creating a usable currency. A function must be subordinate to a purpose, otherwise it is not justified in this place. For example, the purpose of a car is to transport people from one place to another. To do this, the car must have various functions, e.g., it must be able to roll, be steerable, have a drive, protect the occupants from the weather, etc. It is then relatively clear which functions are right and which are out of place. For example, a “watering” function or a “baking” function in a car is absurd in the first instance. Money can and must therefore be defined by its purpose and not by its functions. However, the purpose of money is already subordinate. It starts with human existence and then is derived from there by willful decisions:

1. All people must provide themselves with the necessities of life according to their constitution together (this begins at birth).
2. The economy is an instrument to coordinate and organize humans to provide at least the material existence for everyone².

3. In order to manage the economy in its complexity of contributing and receiving, a means could be created that makes the transactions (contributions and purchases) recordable and assessable.

This could now be a monetary system that serves the above purposes.

4. Accordingly, functions can now be derived as to how the purpose could be achieved in action. These functions can then be combined and built into a specific currency as an expression of a hopefully functioning monetary system. The currency should now contribute to fulfilling the purpose as well as possible.

So, it would be important that in the future textbooks would reflect on the purpose of money as a means of running the economy, as a kind of operating system of the economy.

However, this raises many questions about our lives and our coexistence on this planet, which must first be addressed in order to be able to jointly determine the purpose of the economy...

I'll stop here and am curious to see whether a discussion can develop from this and whether such ideas will also be debated.

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NOTES

¹ Only very few of the articles submitted to this journal in recent years were not based on or did not reference the "classical three functions of money" (medium of exchange, store of value, unit of account) as a definitional basis.

² An evaluation is already taking place here. Not all people want to put everyone else on the same level as they put themselves. Different people will therefore differently set the purpose of the economy.