International Journal of Community Currency Research

VOLUME 28 (2024) 106-109

IDEAS FOR DEBATE

ELEMENTARY MONETARY CONCEPTS AND IDEAS PART 3: SPEAKING MONEY IS ALLOCATING RESOURCES

Jens Martignoni

Chief editor IJCCR

jmartignoni@flexibles.ch

KEYWORDS

Monetary Theory, Functions of Money, Allocation, Finance, Budgeting

To cite this article: Martignoni (2024) 'Ideas for debate. Elementary monetary concepts and ideas. Part 3: Speaking money is allocating resources' INTERNATIONAL JOURNAL OF COMMUNITY CURRENCY RESEARCH - VOLUME 28 (2024); www.ijccr.net; ISSN 1325-9547; DOI - http://dx.doi.org/10.15133/j.ijccr.2024.006

In this third part on fundamental monetary concepts and ideas, I want to talk about the more relevant real functions of money. One of the most important functions is the allocation and planning function. You never heard of it? Of course not, but you did use it extensively for sure, because everybody works with this function almost every day when he or she deals with financial budgets, whether privately: how much money is available for household purchases, how much a visit to a restaurant may cost, etc. or in business, when we allocate resources for projects or entire companies with budgeting. Strangely enough, however, this is not considered a monetary function in the literature. Classical economics generally avoids linking the allocation and distribution of money and wealth to money itself. This would destroy the simple demand and supply graphs and would give rise to the suspicion that wealth and poverty might not be the result of personal hard work, but of decisions, power and politics. But why is such an important function not mentioned properly until today? It might be rather simple as the early science of money was heading after the natural sciences where the focus is on the observation of matter and material events. So, money was observed primarily as coins changing hands against some goods. From that was the "medium of exchange" idea born. Then one could hoard (gold) coins and therefore "store value". That is easy to grasp and sounds plausible, as long as money is itself a commodity. The third "function" needed a higher level of abstraction but was maybe also born out of physics: In what unit can we measure the other two functions? Oh, money is already the measure, it is somehow measuring itself, then we found maybe a third function: It must be the "standard of value".

Until today these findings prevailed and circle around us like ghosts from the past and nothing and nobody or only a few seem to want to question them (Martignoni, 2023; Scott, 2021). All functions that would have been visible in other forms of money, especially in book-money or mutual credit were not object of the observation and therefore no other functions could be found. As the ledger was classified solely as a technique of how to treat money (still thought as coins, registered in the ledger) and "doing" accounting, it was not questioned and remained covered until today. But today's money is different and as it is for the most part credit money, we should start to look closer to the real situation.

One mayor aspect of credit money is its ability to shift values in time. If I get a credit, I could buy things now and pay later (meaning contribute something of value for others later). Maybe I would then start to save money to be able to repay my dept. Therefore, I would make a budget and would store a part of my income on a special account. I now have three types of money "created": The debt as a liability, the savings as reserved assets, and the rest of the income as liquidity to use[1]. That means I have now three types of money or three different accounts which I must manage. To do this properly, a ledger and later double bookkeeping were invented. From then on also the term "finance" [2] or "financial" was coming into use and was developing into today's sense of "monetary resources; money used or intended for a particular purpose; financing, funding" (Oxford dictionary). So, the allocation of money was shifted to «finance» and therefore obscured and neglected. But as the definition is correct it would mean that financing is a function (or ability) of money.

A financial budget or budgeting may be defined as a way to balance income, expenses and financial goals for a specific length of time. Then money can be used to "budget" specific intentions, and so one major function of money is the budgeting (and thereafter financing). The counterpart to financial budgeting is accounting, which is then the tool for tracking this "divided money" or monetary sums as purposed fractions which signify the allocation of that money. This means money is now labeled and split into different sorts which are targeted for different goals.

This is exhaustively done with most existing money, which therefore all is "special money" (Zelizer, 1989). Especially enterprises and organizations widely use budgeting as a method to allocate resources. Some scholars like J.L. Bower (2017) worked on the path to a better understanding of such resource allocation by budgeting, while he was researching companies, but was not taken seriously by the management theorists[3]. But he also did not connect his investigations to money itself.

But could we really say that budgeting is a function of money? Could budgeting not also be done without money? Of course it could (for example by time), but we must resist the temptation here to define money in terms of its functions, but rather to see that money today very much does perform this function of budgeting and allocating resources, and that it does so as a quasi-monopolistic tool throughout most societies worldwide.

What does this mean? Does it help to understand "what money really is" or what is the point of such a shift in perspective?

Firstly, from this point of view, a connection to the credit theory of money is immediately apparent. Furthermore, the connection to organization and development is also immediately established and it is understandable that "financing" is determined by the design of the therefore used money (currency). It also opens up new avenues for monetary theory. The Austrian economist Franz Hörmann, for example, has taken this approach and developed a kind of accounting theory of money and from there proposes options how to enter a "World Without Money" (Hörmann, 2011)[4]. It could even lead us to the idea that money itself is bookkeeping and further to the idea that money in a dynamic way indicates a sharing or distribution ratio within a system. That would lead back to a monetary theory that was already developed in Germany more than 100 years ago based on a first approach of Georg Friedrich Knapp (1905), by his successors Friedrich Bendixen (1912), Hans Owesny (1924), Karl Elster (1920) and others[5]. Then there would also be a bridge to the mutual credit ideas and the works of Thomas Greco Jr. (2009), E.C. Riegel (2010) and others also reaching back to German economists like Heinrich Rittershausen (1962)[6].

And that brings us not surprisingly to the economy as a whole, in which money is part of a set of rules and a kind of legal system that regulates access to resources.

In most cases of community currencies, access to and distribution of resources is also the issue that people would like to see regulated differently than in the prevailing monetary system. But this would need a proper theoretical background that includes such an option and supports these intentions. The neoclassical canon of market and "neutral money" including its exchange-myth is completely unsuitable for such a task. The continued usage of this "theories" might even be an important reason of failure for so many community or complementary currencies in the last 40 years. The dominant neoclassical theory does not only exclude different currencies. It has rather transmuted into a theology that is centered around the "god of the market", i.e. individual self-interest and enrichment, and excludes everything that does not worship this god alone. An alternative currency therefore cannot be built on this approach but must be based elsewhere.

But I did not come to this realization by chance either. I came across it through observation and participation in many valuable, albeit failed, experiments with new currencies. This supported a learning effect of deconditioning in order to get away from the widespread, far too simple and false ideas about money and the economy.

Important steps in the same direction can also be gained from ethnology and from the real practice of communal economics. Here I also refer to the groundbreaking work of Will Ruddick with commitment pooling (Ruddick, 2023).

So, there are many threads stretched out that lead to new shores. They just need to be taken up more strongly and followed more clearly and energetically in the field of community currencies as well, then the long-hoped-for positive effects of such currencies will finally be realized.

REFERENCES

Bendixen, Friedrich (1912). Geld und Kapital, Gesammelte Aufsätze. Duncker & Humblot reprints, Leipzig.

Bower, J. L. (2017). Managing Resource Allocation: Personal Reflections From a Managerial Perspective. Journal of Management, 43(8), 2421-2429. https://doi.org/10.1177/0149206316675929

Elster, Karl (1920). Die Seele des Geldes. Grundlagen und Ziele einer allgemeinen Geldtheorie. Gustav Fischer, Jena.

Greco Jr., Thomas H. (2009). The End of Money and The Future of Civilization. White River Junction: Chelsea Green Publishing.

Hörmann, Franz (2011): Society 2.0 - Entering a World Without Money. TEDxPannonia 2011. YouTube. https://www.youtube.com/watch?v=88ksYFsleto.

Knapp, G. Friedrich., Bonar, J., Lucas, H. M. (Harriet Marcelia). (1924). The state theory of money. London: Published on behalf of the Royal Economic Society by Macmillan and Co., limited.

Martignoni, Jens (2023). „Ideas for debate. Elementary monetary concepts and ideas. Part 2: Money is not a medium of exchange". International Journal of Community Currency Research. Volume 27 (2023); http://dx.doi.org/10.15133/j.ijccr.2023-005

Owesny, Hans (1924). Geld und Geldwesen der Geld- (Kredit-)Wirtschaft. Die wirtschaftliche Begründung Knapp's staatlicher Theorie des Geldes. W. Drugulin, Leipzig.

Riegel, Edwin C. (2010). Private Enterprise Money - A Non-Political Money System; Harbinger House, New York.

Rittershausen, Heinrich (1962). Die Zentralnotenbank. Knapp Verlag, Frankfurt a.M.

Ruddick (2023). Commitment Pooling – An Economic Protocol Inspired by Ancestral Wisdom. International Journal of Community Currency Research. Volume 27 (2023). http://dx.doi.org/10.15133/j.ijccr.2023-004

Scott, Brett (2021). How the 'Functions of Money' blind us to the Structure of Money. Altered States of Monetary Consciousness (ASOMOCO). Substack Blog. https://www.asomo.co/p/structure-vs-functions-of-money?utm_source=%2Fsearch%2F%2522medium%2520of%2520exchange%2522&utm_medium=reader2 (accessed, 30.03.2024)

Zelizer, Viviana A. (1989). The Social Meaning of Money: "Special Monies". The American Journal of Sociology, Vol. 95, No. 2 (Sep., 1989), pp. 342-377. http://www.jstor.org/stable/2780903

ENDNOTES

[1]This would be a strong extension of the idea of special monies by Zelizer (1989)

[2]Finance: late Middle English: from Old French, from finer 'make an end, settle a debt', from fin 'end'. The original sense was 'payment of a debt, compensation, or ransom'; later 'taxation, revenue'. Current senses date from the 18th century, and reflect sense development in French.

[3]«The problem of resource allocation is central to economics. It is also central to the strategic management of companies. Despite considerable research by management scholars describing the process in firms first carried out in the 1960s and continuing since then, management theory of the process remains wedded to a financial model of capital budgeting that poorly fits the problem facing companies.» (Bower, 2017)

[4]Unfortunately, most of his books have been published only in German.

[5]Many of these old texts are available via https://onlinebooks.library.upenn.edu/ (mostly accessable in US only due to copyright laws).

[6]More information and a very valuable collection of sources and text including translations can be found in the library section of Tom Grecos website https://reinventingmoney.com/library/