A Story About Money

By Verity Carney

As we move comfortably through the second decade of the 21st Century it would seem that our economic system is faltering in far reaches of the world. The world is grappling with debt of a magnitude never imagined by the architects of the post war economy. The institutions set up in the Bretton Woods Agreement to buffer crisis such as the IMF are currently dictating austerity programs throughout Europe when in fact stimulus is required. Greece is being bailed out the third time in that many years and currently threatened with expulsion from the euro. America is faltering with a national account debt of $16 trillion dollars. In recent years and in what most logically destabilized the world economy was what has been named the global financial crisis. An aberration in accounting systems which started with the selling of debt as an asset rather than a burden: Debt was packaged by the banks and sold as securities otherwise now referred to as toxic. The idea that debt was an asset with a healthy return is peculiar to double entry bookkeeping. The trading of these supposed assets (bundled debt) resulted in an unfolding of a crisis of finance capital (The International Banking System) with global proportions.

To understand the nature of the imbalance of the world economy we must look at what underpins a Banking system secured by assets that are both toxic and devoid of localized structures of value. To individual citizens there is value stored in car, houses and valuables. Yet to the Banking system that is relied on to help purchase these household assets, there is a complex web of securities, derivatives and and interbank trading in loans. It is without irony that for most of the millennium before us the lending of money for interest was against the law and referred to as usury and was according to the churches to be against divine law as a cardinal sin. Yet today the banks are propped up with debt and the individual customer and businesses are held ransom to changes in interest rates, bank fees and charges that have resulted in capital gains unimaginable to previous ages. It is of significance to the banking systems that most were recapitalized by state revenue during the Global Financial Crisis yet in this recaptalisation nationalization and reevaluations of current capital movements were not considered or questioned by nation states.

In part I wish to tell the story of this genealogical history of money. Addressing the current instability in the form of value that indeed money serves to represent. Indeed value as money poses the question of both materiality as well as market phenomena. The attempt to pose economic analysis within the realm of the consideration of value concerned all significant contributions since the birth of capitalism at the beginning of the industrial revolution. Classical economists from Malthus, to Adam Smith and Marx pondered the new evolution of capitalism with highly intricate analysis about the relationship between the determination of value and price. A quest Simply understood as by what measure of logic does there become an acceptance of the formation of equivalence in exchange. Namely how it is that parties in a contract of exchange come to accept that an *x of* A is equal to a *y of* B. That is to say, by what measure, and measured against what, does commensurability between two different things become acceptable to both parties and exchange thus takes place.

In its origin exchange occurred without a mediating commodity. As Barter the product of one commodity was exchanged for the product of another. Barter was limited however by the fact that although one party may have wanted the product of the other, there was no guarantee that a reciprocal want or need was apparent. Thus Barter was limited by the absence of a mediating commodity such as money and so therefore exchange could be thwarted by the absence of an equivalent form. Additionally, barter was constrained in its appropriateness because even though both parties may have wanted the product of the other A and B may not have been divisible in a way that would ensure equality between the exchanging parties. For example if commodity A was a cow and commodity B was a musical instrument, and each commodity was considered of a different value, then there existed no way of reconciling exchange if one was considered of more value than the other. In particular this was made most apparent when neither good could be divided into smaller parts to make exchange equal.

Out of Barter therefore developed the mediation of exchange by some other commodity that was mutually recognized and accepted as possessing the qualities that allowed for an *x of* A to be exchangeable for a *y of* B. Those qualities were that this mediating form could measure equivalence and also be divisible: Such that the relative worth's could be commensurable for one another. Over time this equivalent form , able to mediate between relative worth's was invariably was invariably selected from already existing attachments to precious metals (gold and silver) which were divisible and measurable in its naturally pure states by relative weights. The selection of these metals for the purpose of commodity exchange was made increasingly practical insofar as these, across civilizations and cultures, occupied a state of universally recognized preciousness.

In Ancient times, Salt had originally performed the role of money, due to its ease of divisibility, its natural purity which allowed weight to accurately facilitate divisibility, as well as its ability to be stored and accumulated without the threat of decomposition. Indeed the quality of preservation of value in regard to salt had a practical significance also insofar as it was salt in these times was used for the preservation of food.

In the early days of the Australian colony the alcohol Rum performed the function of money. It was held by the Army Corps who often helped themselves and often drank too much. Governor Bligh, seeking to find a treasury more befitting of the currency was arrested by drunk soilders the night of Australia Day 1808 and kept under house arrest until being sent back to Britian almost six months later. In history this is known as the Rum Rebellion. The next Governor, Governor Macquarie solved the problem of the integrity of the Treasury Reserve by offering whomever built a hospital in the early colony to be entitled the right of holding the Official Rum reserve.

Money was therefore a commodity that was selected from all commodities as that with a generally accepted value for which all else could be willingly exchanged. Divisibility was usually a physical property of the commodity: that is, that it could be divided into parts and that these parts retained their relative worth, in separation and accumulation. Divisibility was therefore measures as a property of weight. But the potential for the fraudulent representation of weight existed with the capacity for the mixing of the precious substance with an undetectable other.

Thus with the advent of national currency (as coinage and Bank notes) it was necessary for integritys sake that the value of the metal chosen as universal equivalent be stamped with a face value for not simply the ease of divisibility in exchange but also that its quality be guaranteed by the highest authority usually the king (seigneur). Thus in the name of the King or Queen its quality and quantity was guaranteed, hence the practice to this day in many countries currencies of stamping the face of the Seigneur (King or Queen) on coinage. This was necessary for the exchange relations within and between countries. Insofar as it facilitated an immediate acceptance of the value of the metal, be it gold or silver, as money. Thus its purity in relative worth (as measured by weight) was stamped on the coin, and authorized on the opposite side of the coin by the face of the Crown.

It is from here that overtime the contradiction implicit in the money form may begin to be told. For the challenge arose between the form and the face of metallurgic money: between the relative value of the material commodity in money and its representational form. As these metals also had a market value as precious metals, they traded freely and their price by weight ebbed and flowed in the market. Sometimes the value in the market for a certain weight of gold or silver differed from the value stamped upon it. And thus there was the temptation to melt down coinage and sell it for a higher price. Indeed we can still see today in coins a pattern of lines or lettering inscribed on the circumference of coins once used to protect a coins value against those who shaved the rims to melt down, while maintaining the face and crown that showed its official worth. In response of this contradiction it was a decree made by Issac Newton Executor of the exchange and head of the British Royal Mint who solved the problem by setting the face value of gold coinage above the market value of gold such that there was no longer was reason to melt down the gold in coinage. In fact by this decision alone there was a stability in the Gold Standard that lasted two hundred years, thus protecting against the leakage of gold coin from circulation.

But not all money in circulation was gold: increasingly it became normal practice, with the evolution of Banking, that gold be held in treasury and Bank notes issued in their stead. This was practical for reasons of security as well as reasons for the issuing of credit. Additionally it made purchasing exchange easier insofar as the Bank notes were easier to carry and trade with. As the notes held currency only for the country in which they were issues it proved to be impractical for international trade. Merchants would therefore exchange banknotes for the gold they represented in order to import commodities (usually large quantities of grain, spices, tea and cloth).

Thus a more profound contradiction arose for the monetary system – set against the standard of gold. As the paper money in circulation was a representation of official reserves of gold held in treasury coffers, international trade resulted in the reduction in these stocks of gold. Thus there arose a situation whereby there was a discrepancy between the amount of paper money in circulation and the gold for which it was meant to represent. Technically therefore there arose a situation where the face value of paper money could face devaluation, or prices rise in order to rectify the divergence between the materiality of money and its representational form. This was a real concern for the Banks at the time as

Bank notes were directly exchangeable at face value for the gold they were issued against: a situation which was exacerbated by the growth of Bank credit.

In order to refill official coffers with lost stocks of gold resulting from international trade, and thus protect against a currency devaluation and all its consequences within a national economy, it was necessary to ensure that the value of imports were in some state of balance with the value of exports. From this predicament and for the purpose of monitoring the integrity of the gold standard, it became necessary to calculate a countries balance of payments as in national accounts. A balance of payments deficit was a problem insofar as it indicated a loss of gold reserves. This predicament if not rectified by a surplus the following year threatened to undermine the basis underpinning the stability of national currency and prices. In the extreme, if faith was lost in the convertibility of bank notes (currency) for official reserves of gold there existed the potential for economic crisis, deriving from a run on the gold as holders of paper bank notes sought to withdraw deposits of gold. Thus a balance of payments surplus led to an increase in official gold reserves and a deficit a potential crisis of non convertibility.

Tariffs therefore became a practical way of restricting imports. But insofar as most imports were basic food stuffs the impact of tariffs fell on wage laborers who didn't earn more that their daily bread, thus domestic class tensions arose. The Corn Laws (Import duties) in Britain inflated the price of bread and thus the seemingly bizarre practice of bakers mixing sawdust into the dough to keep its price low enough for industrial laborers to purchase. In fact the social agitation to the end of the repealing of the Corn Laws was so significant it galvanized class tensions and ushered in representative democracy in Britain fearing the spread of the animosity between the classes that had seen the French Revolution and uprisings throughout Europe in the 1840s, a democratic revolution began in Britain. The riots were quelled by giving every citizen the vote and the Labour Party galvanized class sentiment into parliamentary representation. Ironically enough in the end it was the industrialists themselves who finally pushed for the end of the corn tariffs in order that they could reduce wages as the price of bread became cheaper.

Since the 16th Century, the era of Mercantilism was witness to burgeoning international trade. It was during this era that the Gold Standard of payment was used and accepted as payment in exchange in world markets. It developed before the genesis of capitalism which universalized the money form, commodity exchange, and wage labour. Once the industrial revolution arrived circa the 18th Century in Britain, industrialists began to participate in, develop and indeed dominate production and exchange relations on a national level. The Gold Standard of payment was the standard for domestic currency and exchange and thus the money circulated more often than not in Bank Notes, underwritten by the Gold held in the National treasury. It was no surprise that so many flocked the Gold Fields of Australia and America during the 1940s to try their hand at panning for gold. As industrial output developed commodity production , and commodities made in factories began to be sold for profit, money circulated as capital, and as capital it arose to create a more complex internal structures of production and consumption and other economic activity such as finance within countries than had been normal under a purely Mercantile stages of international exchange. Mercantilism was in all practicality grafted onto feudal social structures of production and consumption.

Previous to industrialization, labour was bonded under Feudaliam, payment was mostly in kind and international trade was mostly in luxury items. Hence exchange for the greater population took place as exchange of use-values for the purpose only of consumption. For instance, a commodity (say corn) was exchanged for money in order that it then be exchanged for another commodity (say cloth). Exchange took place for the purpose of consumption in simple commodity exchange: selling in order to buy. With the advent of capitalism however there involved and inversion of this circulation of goods and money. Capital (money in circulation) was used to buy in order to sell (at a profit). Money was the beginning and the end and indeed the motivating force in production of goods. Its determining force was not use and consumption of a good but rather the emphasis was placed on exchange value such that profit can be made through commodity production and exchange.