The Gower Initiative for Modern Money Studies

A Brief History of Money

We keep it in our purse, we hold it in our bank accounts, we hand over our debit or credit cards to pay for things. We might even keep it in a box under the bed. But do we ever ask ourselves what money is and where did it come from? Is it just the cash and notes in our pockets and the electronic entries we see going up and down on our online bank balances or is it something more?

Governments make payments or banks issue bank credit which are just numbers on a screen noted as both assets and liabilities. But how do we define what actual money is? It's not a straightforward question to answer.

In its long history it has been represented and recorded in many societies and in many different forms – cuneiform tablets, grain weights such as the shekel, shells, beads, immovable stones, tally sticks and even precious metals. Ancient Egypt and Babylon had a sophisticated banking system based on grain storage. The Lydians of Greek Asia Minor are said to have invented coins in the 7th Century BCE and it is recorded that Alexander the Great struck them to fund his military campaigns. In Europe coins appeared a thousand years before banking. It is believed that writing was invented to keep track of debts in communities.

Anthropologists and historians have found no evidence that money came into being in a barter, market exchange context although this story is repeated in university economics courses around the world and is still to be found in Economics 101 textbooks. In historic terms money has been linked to its role as an institution that allowed societies to maintain order and security, provision resources for governance, security and development, and to record and clear debt. Today, in the same way, we should view it as an institution that aims to serve not just commerce and private enterprise but people and their communities. Money should be created to serve the people and not the other way around.

Money basics:

- Contrary to common belief money arose not from barter as the 18th Century Scottish philosopher, Adam Smith, argued but from its social context.
- Historically, it was guaranteed by an authority – a King or a powerful leader. These days money is an instrument of the sovereign state which has the power to impose tax obligations, fees and fines in its unit of account which in our case is £ sterling. It is a state monopoly.
- It is both a unit of account and a record of a debit or a credit.
- It is a measure in the same way as kilos, litres and metres.
- It has no intrinsic value and there is nothing backing it like gold. It measures value. It is a medium of exchange.
- Taxes drive money. Anyone can create it but it's worthless if it isn't accepted. Would you accept Josephine's 'blogg' tokens, cranked out on her money press in the cellar, in exchange for a jar of coffee? Probably not. The use of the currency and its value are based on the power of the authority which issues it and citizens are legally obliged to pay their taxes in that unit of account.
- Money can be both paper notes issued in the State's unit of account or it can be what is recorded on Central Bank account balances. Most money is now created in digital form. Paper notes and coins only amount to approximately 3% of the total in circulation.
- There is what might be termed as a 'hierarchy of money' whereby the government grants private banks a licence to create deposits in the state's unit of account and other institutions adopt it for financial purposes.

Generally speaking most governments:

Choose the unit of account for their nation (for example, the Yen, the Pound or the Dollar).
Issue a currency which is denominated in that unit of account.
Use that currency to make payments.
Impose taxes or other obligations to redeem its IOUs.

Making sense of money

Although it isn't necessary to read or understand the long history of money creation in order to understand the economy, there are some basic principles contained in the history that make sense of what we are talking about in MMT. Because most of us don't think about money other than in terms of whether we can afford to pay for what we want to pay for, it is very easy to fall into the habit of thinking of the government spending and earning its income in the same way that we do. Because money has real value to us and it affects our every day lives, we assume that the currency itself has an intrinsic value. Once we can shift our thinking to the idea that at government level money isn't a commodity but a tool for carrying out government purpose then the MMT concepts start to fall into place.

References:

Stephanie Kelton: How to start a currency from scratch. Professor Kelton running a little live currency creation experiment! https://youtu.be/IhRzC_fERbs

The Myth of the Barter Economy – by Ilana E Strauss

The First 5000 Years of Debt – by David Graeber