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Adapted from Bendell, J and M. Slater (2015) Money and Society, free course, www.iflas.info

Money and Society

MOOC

(free online)

Lesson 1

Introduction to money: functions, forms and fallacies



Pre-course work for the
Certificate of Achievement
in Sustainable Exchange
www.ho.io/iflas

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Why study money?

"I did not think about the money system at all. **I took it for granted as a neutral and inevitable aspect of human society.** ... I now understand... that the prevailing financial system is incompatible with sustainability..."

Dennis Meadows (2012), one of the authors of the 1972 Limits to Growth report.

At the end of this MOOC you will be able to:

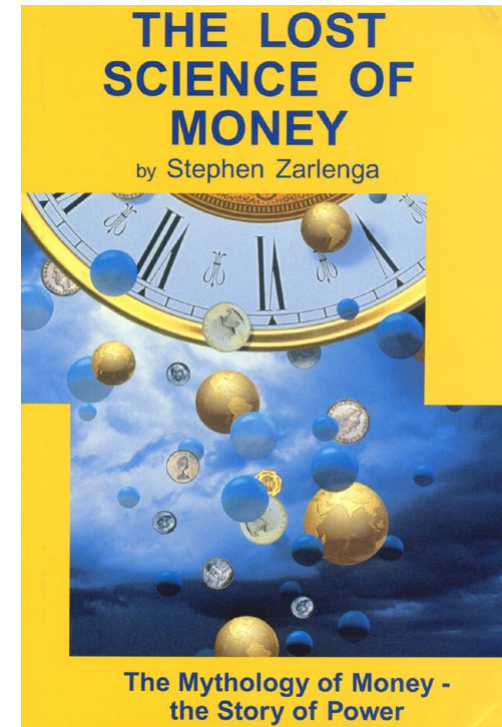
- Critically assess views on the form and function of money and currency by drawing from monetary theories
- Explain theories on how social, economic and environmental problems arise from mainstream monetary systems
- Explain alternative forms of money and currency and the theories on how they can support better social, economic and environmental outcomes



Money is important

“Since the monetary question directly impacts all areas of human activity, in order to make real progress towards justice, a clean environment, a sound energy policy, decent health care and retirement systems, a greater real freedom of choice and action for the citizenry requires the monetary problem to be addressed and solved first.” - Stephen Zarlenga

“The study of money, above all other fields in economics, is one in which complexity is used to disguise truth or to evade truth, not to reveal it.” - John Kenneth Galbraith



Think...

Reflect before moving to the next slide:

How do you feel about the scale of the claims made by some monetary reformers, about the damaging consequences of our modern monetary systems? Does it draw you to study this, or do you feel skeptical and repelled? Notice the feeling and then try feeling the opposite. What might a spirit of learning feel like?



The barter origin of money?

Try one of these videos on barter:

Gold Standard Institute, Understanding Money, [part 1 – the Origin of Money](#)

[The American Dream](#) Appealing animation by unknown organisation 'The Provocateur Network'
Charming homemade [animation](#).

Search google news for “Back to Barter” to see the contemporary usage of this story:

https://www.google.com/?gws_rd=ssl#q=%22back+to+barter%22&tbm=nws



Properties of money

Aristotle's (extrapolated) properties:

- Valuable
- Durable
- Divisible
- Portable

We could debate what has “intrinsic” value, rather than any “value” existing in relation to the wider I living world, but that would be another MOOC other philosophers, from East, West and beyond 😊



- What commodities would be suitable as a medium of exchange for modern day barter?



Monetising commodities

- Many commodities have Aristotle's properties, more-or-less...



- Beer
- Tobacco
- Honey
- Tide detergent
- Gold & Silver



The Myth of Barter

University of Nicosia | MSc in Digital Currencies

Barter

- The earliest form of commerce and trade was through barter, an activity of simply trading goods or services directly, without any intermediary 'medium of exchange.' In small villages or tribes, with limited specialization of production and similar needs and wants, this was an acceptable approach

OR!

“No example of a barter economy, pure and simple, has ever been described, let alone the emergence from it of money; all available ethnography suggests that there never has been such a thing.”

Caroline Humphrey, 1985.



Functions of money

- Medium of exchange
- Store of Value
- Measure of value



- If a measure of length has to be long, and a measure of weight has to be heavy, does a measure of value have to be valuable?



So what actually IS money?



Think...

- Put aside the properties and the functions of money.
- Ask yourself, what IS money?
- Write down your own original definition in one sentence, now, before moving on.

Search online for a definition that agrees with you.

Only after, advance to the next slide



Money is...

Ideas from the 1800s:

“...the god of commodities” - Karl Marx

“...a documentary promise ratified and guaranteed by the nation to give or find a certain quantity of labour in demand” - John Ruskin



Think...

Are these views mutually exclusive?

Or could they both be right?

Can something be both a commodity and a promise of labour?



Basis of money

“Why should I accept your money? On what basis does it have value?”

- Offers present value - as a **value-in-itself** which can be exchanged for like value - commodity money
- Offers future value - as a **promise of future value** – credit money
- Offers past value - as proof **of past value** created – acknowledgment money



Money as Commodity

- Intrinsic value
- Specie Money, meaning payment 'in kind'
- 'Sound' money, 'Honest' money
- Austrian School



Honey Money – thought experiment

Imagine the currency collapsed and your local town quickly adopted honey as the local currency.

After a year of using honey money, what would you see?

- a) People carrying pots of honey everywhere
- b) No visible change at all
- c) Economic depression
- d) Panic over news of escape of genetically modified killer bees



Honey Money – thought experiment

It's unlikely people carry will pots, instead using paper & electronic honey-IOUs. Swift action would mean sufficient IOUs for all trade. Profits from honey would stop colony collapse but encourage engineering bees that make more honey.

a) People carrying pots of honey everywhere

b) No visible change at all?

c) Economic depression

d) Panic over news of escape of genetically modified killer bees?



Money as Credit / Debt

- Social agreement
- Trust in issuer
- Promissory notes
- Cheques
- Credit Theory of Money



Mutual Credit

A transaction ledger between Alice, Bob and Carol

| TxID | Date | Payer | Payee | Amount |
|------|------------|-------|-------|--------|
| 1 | Mon 1-1-01 | Alice | Bob | 10 |
| 2 | Tue 2-1-01 | Bob | Carol | 20 |
| 3 | Wed 3-1-01 | Carol | Alice | 10 |

Which implies that members have the following balances, which MUST total 0...

| | |
|-------|-----|
| Alice | 0 |
| Bob | -10 |
| Carol | 10 |
| TOTAL | 0 |

For a friendlier explanation, watch [Creating own money](#).



Commodity vs Credit

“Through all the discussions of the nature of money there runs the question as to whether money, in order to carry out its services of measurement, exchange and representation of values, is or ought to be a value itself; or whether it is enough if money is simply a token and symbol without intrinsic value, like an accounting sum which stands for a value without being one.” -

Georg Simmel (1907)

Some of the differences:

- Store of value vs medium of exchange
- Elasticity
- Trust & Fraud
- Cost of issuing
- Vulnerability to market speculation / manipulation
- Issuing Power



Money as acknowledgement (rare but important!)

Not only can money be of value-in-itself or a promise of future value but it can be a proof of past value created – acknowledgment money.

- The [Boya Boya?](#)
- Proof of work in bitcoin
- Circulates forever



Think...

- Which of the following do you most celebrate in a person?
- How much they have accumulated, i.e. their net worth)
- How much they have created? i.e. work done
- How much they have given i.e. generosity



Fiat money

- The sovereign, or those licensed by him, has the authority to create the money of his dominions and it is treason for any other to do so... When the sovereign declares a piece of money to a penny, groat, or shilling, that makes it so... This is a power that the state reserves for its own safety and welfare. - 'Mixt Monies of Ireland' landmark ruling in English law, 1600AD
- Chartalism and neo-Chartalism
- State Theory of Money
- Modern Monetary Theory



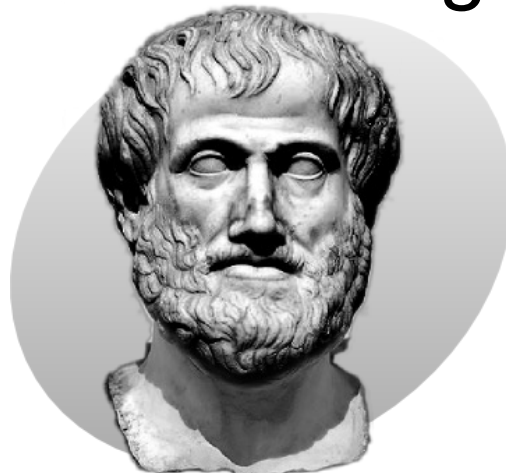
- The rock band KLF burned one million pounds of their own money. In [this chat show](#) they received a somewhat hostile reception. What is the effect on a fiat economy when fiat notes are destroyed?



A thing or a social construction?

Money is “an agreement within a community to use something as a medium of exchange” Lietaer

- Money is essentially a process, not a thing, and that process includes our everyday stories of money.
- Arguably, unit of account and store of value are sub-functions of the exchange function of money.



Typologies of money



In these slides, when we say “tutors” we mean the authors of the lessons, Professor Jem Bendell and Matthew Slater, and not the tutors on the forum and webinar, who will have their own arguments to add later.



The Eight Traits of Money

- Backing / intrinsic value



The Eight Traits of Money

- Backing / intrinsic value
- **Nominal / face value**

This gold coin from the US Mint is legal tender to the value of \$50 while the specie value is over \$1000 dollars.

While unlikely to be spent (Gresham's law in extremis) such items have been used at face value to avoid taxes.



The Eight Traits of Money

- Backing / intrinsic value
- **Nominal / face value**

This American Open Currency Standard (AOCS) silver medallion is currently accepted by members at around twice the specie value. Read more...



The Eight Traits of Money

- Backing / intrinsic value
- Nominal / face value
- **Incentives / Compulsion**



Incentives - Legal tender laws

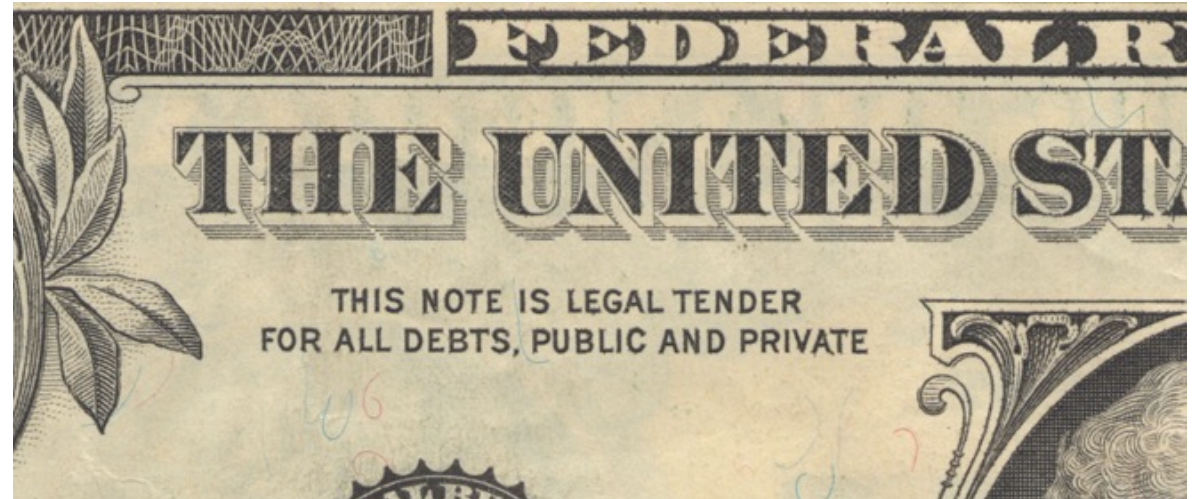


“A medium of payment recognized by a legal system to be valid for meeting a financial obligation.”

- - Wikipedia

“Legally required commercial exchange medium for money-debt payment.”

- thelawdictionary.org



The Eight Traits of Money

- Backing / intrinsic value
- Nominal / face value
- Incentives
- **Payment tech**



The Eight Traits of Money

- Backing / intrinsic value
- Nominal / face value
- Incentives
- Payment tech
- **Trust in the issuer**

Reassuring to see the gold is in the vault, but who's gold is it?



The Eight Traits of money

- Backing / intrinsic value
- Nominal / face value
- Incentives
- Payment tech
- Trust in the issuer
- **Cultural prevalence**



The Eight Traits of money

- Backing / intrinsic value
- Nominal / face value
- Incentives
- Payment tech
- Trust in the issuer
- Cultural prevalence
- **Unit of value**



Think... what is the advantage of having a unit of value like the dollar?

What are the disadvantages?

What would be the alternatives?

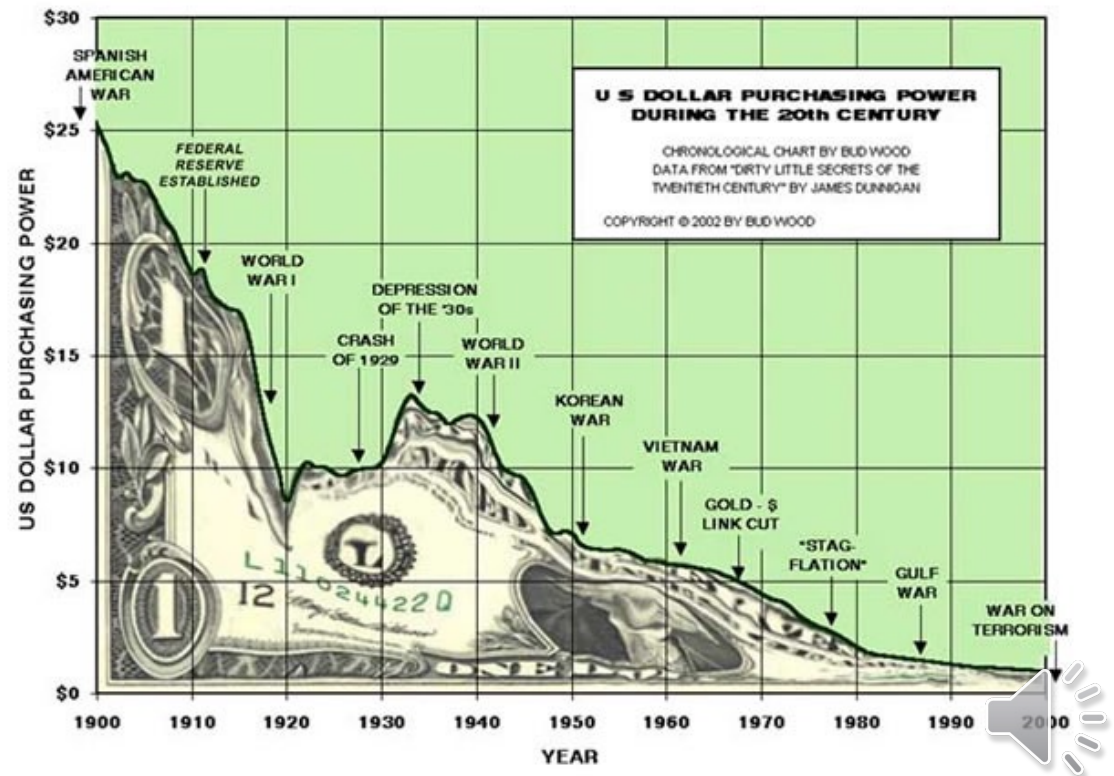
If you have time, view this video of Robert Kennedy in the 1960s talking about GDP, while in your mind replacing the word GDP with money:

<https://www.youtube.com/watch?v=t6U2irFSYHo>



The Eight Traits of Money

- Backing / intrinsic value
- Nominal / face value
- Incentives
- Payment tech
- Trust in the issuer
- Cultural prevalence
- Unit of value
- **Value over time**



The Eight Traits of Money

- Backing / intrinsic value
- Nominal / face value
- Incentives
- Payment tech
- Trust in the issuer
- Cultural prevalence
- Unit of value
- **Value over time (Interest)**



Fractional Reserve Banking

- [Money as Debt](#) Simple animation explaining how the goldsmith invented fractional reserve. Watch to minute 9:50, which is just over 3 mins.
- [Money as Debt III](#) More excellent explanations including the role of legal tender, 9 mins
- [American Dream](#) lively animation, 3 mins
- Positive money Banking 101, [What's wrong with the money multiplier?](#) Visual explanation and debunking of fractional reserve banking, 8 mins



- What intellectual justification can you find for the goldsmith lending out your gold to more than one person at the same time?



Modern money creation

[How much money can banks create?](#) - Positive Money Banking 101 part IV

[Bank of England quarterly bulletin 2014 Q1](#) sums up this issue without questioning any of the processes. PDF

A study by Professor Richard Werner (2014) , by analyzing one bank in real time, “establishes for the first time empirically that banks individually create money out of nothing.”



Think...

- Is money a public good?
- Do the arguments for privatising public services apply to money creation?



Read Now

There will be no seminar this week but an online forum. Before completing your assignment, read David Graeber's (2011) chapter “The myth of barter” [pdf] or listen to it [here](#) & then read Professor Yamat's (2013) “Essays in Monetary Theory and Policy” [here](#).

This is your assignment, max 500 words.

Submit soon on the forum:

You have inherited 300K USD. Your financial advisor tells you that you have the opportunity to include the currency Ven in your portfolio, for a 5% discount on the currency trading price of Ven, if you make a commitment to hold it for minimum of 5 years with no guarantee of earnings. He asks if you want 0%, 1% or 10% of your savings in Ven under these terms. He asks you to look at their website, <http://ven.vc> before deciding. After researching the currency, what decision would you make, and why, and what information, if any, would you ask your financial advisor to obtain?



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Further study?

Online readings or audio:

http://www.unwelcomeguests.net/Debt_The_First_5000_Years Or PDF of full book:

<http://www.datafilehost.com/d/ddc62659>

Some excellent explanations: <http://wfhummel.cnchost.com>

[The Cobden Centre](#), a collection of writers giving a broadly Austrian perspective

Episode 1 of this podcast:

<http://www.robinupton.com/people/WizardsOfMoney/>

Videos:

Grignon, Paul, **Money as Debt III: [Two kinds of money](#)** 6 min

Martenson, Chris, **Crash Course:**

-chapter 6 <https://www.youtube.com/watch?v=U8dq1bH1X6s> 6 mins

-chapter 7 Fractional Reserve Banking <https://www.youtube.com/watch?v=qlxhsF6JLEA> 4 mins

-Chapter 8 Government money creation with treasury bonds https://www.youtube.com/watch?v=p3_Q1SiRN-A 7m

Full books:

Werner, R., Jackson, A., 2012, **Where does money come from: a guide to the UK money and banking system, 2nd edition**, nef (the new economics foundation): London

Simmel, Georg, **The Philosophy of Money** (1907)

Dodd, N, **The Social Life of Money**, (2014) Princeton University Press.

Riegel, E. C, **The New Approach to Freedom** (1976) or full PDF book: <https://duckduckgo.com/l/?kh=-1&uddg=http%3A%2F%2Fnewapproachtofreedom.info%2Fdocuments%2Fnaf.pdf>

Lesson 2, in a week, is on 'The History of Money.'
If this course is interesting to you, consider enrolling for the
Certificate of Achievement in Sustainable Exchange www.ho.io/iflas

