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November 18, 2004

### The Misty Origins of Money

Money, an inanimate idea assuming many forms, has managed to infiltrate everything from our slang language to our children's games to the text of nearly every major religion. Likewise, the modern economy, relying heavily on the idea of money, commands profound influence on politics, social well-being and even psychology. Clearly, money is powerful enough to weave its way deep into the human psyche, but debate continues to rage over the exact origins of the idea of money. In this paper, I will explore the spectrum of philosophers and economists, including Keynes, Smith, Marx, Menger and Mauss whose views range from emphasis on the individual to focus on the state to concentration on reciprocity theory. For the sake of simplicity of argument, the specific type of money discussed by each economist will act as the prevailing definition of money within that paragraph. For example, Keynes speaks namely of money proper, which will be considered, in his paragraph, the true money. Likewise, Mauss writes of a conception of money, rather than solely fiat money. This assumption focuses the contentions on the topic of money's origins, rather than diffusing the debate into more abstract discussions on *what* money truly is.

In 1930, John Maynard Keynes argued persuasively that the presence of the State (which he always capitalized in his writings) is elemental in the success or failure of converting a specific commodity into money. At the very beginning of his A Treatise on Money, Keynes distinguishes between money-proper, that which is traded, and money-of-account, that which specifies in what units debts and prices are listed. His distinction is of utmost importance because he asserts that the State controls money-proper. "The State, therefore, comes in first of

all as the authority of law which enforces the payment of the thing which corresponds to the name or description in the contract” (Keynes, 4). He goes on to outline an evolution of money, and, unsurprisingly, the money-proper is the most highly evolved form. As Keith Hart summarizes in The Memory Bank of Keynes’ views, “It is the act of naming [which] is more truly creative and social than manufacturing” (Hart, 248). Keynes acknowledges that the State has the power to create, or manufacture, money through coining or printing. As we have seen in recent history, governments recognize this authority as well and have sometimes ended up crippling their economies, as in Yugoslavia in the 1990s. However, that great power is not as highly evolved as the ability to “declare what thing should answer as money [proper] to the current money-of-account” and to “[claim] the right not only to enforce the dictionary but also to write the dictionary” (Keynes, 5). In other words, “money did not have to wait until coins were struck; and it is this aspect of *making money*, rather than *finding* it that [Keynes] wanted to stress” (Hart, 247). The market, of course, may choose to define the value of goods in terms of other goods, but this is simply money-of-account, according to Keynes. The crux of his proposition is that the State could name something as intrinsically devoid of value as green paper to serve as the nation’s money proper. As a State wields more of its influence, the economy moves from money-of-account along the path to fiat-money (money proper). Therefore, Keynes’s State is not just an authority, but a creative, human institution ultimately responsible for the origin of contemporary money – fiat money.

Adam Smith is the progenitor of the barter theory of the origin of money. Many economists, including Karl Marx and Carl Menger, have been strongly influenced by Smith’s The Wealth of Nations. When Keynes, many years after Smith, defined his money-of-account, he appeared to have Smith’s theory in mind. Keynes acknowledged that the market could choose

to list prices and debts in terms of other goods if it so pleased. It is exactly this freedom and will of the market with which Smith is concerned. Smith writes that “every prudent man...after the first establishment of the division of labour, must naturally have endeavored to...have at all times by him...a certain quantity of some one commodity or other, such as he imagined few people would be likely to refuse to exchange for the produce of their industry” (Smith, 24-25). This endeavor to settle upon a particularly useful commodity is caused by a lack of double coincidence of wants. The chances that two people will meet with the desire to exchange for each other’s goods at the same time are much too slim to satisfy general demand for trading. The division of labor, a favored topic of Smith’s, had created a society with many individuals with an excess of a certain specialized good. “They have nothing to offer in exchange except the different productions of their respective trades” (Smith, 24). He continues to hypothesize that many different commodities at one time or another had come under consideration for the purpose of exchange, with an eventual decision on the most convenient or efficient commodity, usually a metal. Smith does not concern himself with the authority of the State that so captivates Keynes. Smith notes the State’s stamping and coining mainly as a useful way of safely ascertaining the quality and quantity of metal. Therefore, the origin of money, according to Smith, is a matter of comparative advantage to barter.

In 1867, Marx refined Smith’s theory of the origin of money, but generally remained true to the original idea. He states that “money is a crystal formed of necessity in the course of exchanges...the historical progress and extension of exchanges develops the contrast in commodities, between use-value and value... [it] urges on the establishment of an independent form of value, and finds no rest until it is once for all satisfied by the differentiation of commodities into commodities and money” (Marx, 65-66). Clearly, Marx agrees with Smith’s

view that the development of money is but a natural progression caused by the forces of the market. “The division of labor converts the product of labor into a commodity, and thereby makes necessary its further conversion into money. At the same time it also makes the accomplishment of this trans-substantiation quite accidental” (Marx, 85). Here, Marx directly mentions Smith’s brainchild, division of labor. Instead of describing the process as natural, Marx deems it accidental, a fortunate side effect of barter. However, Marx has a somewhat different intent for describing the progression of money in such a manner. While Smith speaks from a purely economic standpoint, Marx is eager to define money as essentially a product of human labor in order to free the working class from being mindlessly controlled by what is perceived as a mysterious, almost sacred material: money. His origin theory, therefore, displays in reassuring simplicity that we need not be afraid of this societal force because of its natural, rational progression.

Menger also supports Smith’s theory, elucidating the same ideas in further eloquent language. Furthermore, by Menger’s time in 1842, there surely already existed arguments for the view that money originates from a State because he refutes these ideas several times through his work, On the Origins of Money. “An event of such high and universal significance and of notoriety so inevitable, as the establishment by law or convention of a universal medium of exchange, would certainly have been retained in the memory of man” (Menger, 2). By his argument, a State theory should have concrete evidence; on the other hand, the theory of Smith’s is a historical progression and hence can not be expected to be proven by one particular event. In the conclusion, Menger states outright, “Money has not been generated by law. In its origin it is a social and not a state institution” (Menger, 12). There is no question as to on which side of the debate Menger falls.

Up to this point, a general dialectic has been described between a State theory and a natural progression theory evolving from barter. With Mauss's The Gift, the origin of money calls for a more anthropological conjecture. He posits that gifts are the original form of exchange, even before barter. He then goes on to explain how the qualities of gift-giving mirror the qualities that we expect from our fiat money today. "Gifts circulate...with the certainty that they will be reciprocated. Their 'surety' lies in the quality of the thing given, which is itself that surety" (Mauss, 35). This description of gift-giving satisfactorily parallels our general rules in exchanging fiat monies. Fiat money requires trust or certainty that the seller will be able to turn around and buy different goods with the same piece of paper. The quality of the fiat money (or the amount of trust in the government issuing that money) parallels the surety or quality of the gift and its expected reciprocation. "It is in the nature of a gift to impose an obligatory time limit" (Mauss, 36). Here we see even more complexities inherent in trading fiat monies, ranging from inflationary pressures to political forecasts, reflected in a simple time factor built into the idea of a gift. Mauss, like Menger, also criticizes previous theories. "The facts also answer a host of questions concerning the forms and reasons behind what we so ineptly term exchange, the 'barter,' the *permutation* of useful things, that an *a priori* economic history places at the origin of the division of labor. It is indeed something other than utility that circulates in societies" (Mauss, 72). In using the phrase "a priori," Mauss argues that the barter idea works backward from activities that are already known to take place and arrives at a false conclusion. Furthermore, he challenges the theory that we rely on a material which arose as a mere convenience, or utility. His ideas are supported by enormous amounts of historical and field research, and the theory is a step back from the dialectic between individual and State that has

mired many an economist. According to Mauss, we can trace the origins of money to the archaic (and contemporary) practice of gift-giving.

Countless other economists, philosophers and anthropologists have chimed in to tweak previous views, contribute new ideas and further the investigation as to the most basic origins of money. Certainly, the three main theories presented here are both widely-known and widely-disputed. At a certain point, a fledgling economist must simply be pleased that a proposition which is so difficult to prove has inspired and continues to inspire such passionate debate.

### Works Cited

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“There is no denying that views on money are as difficult to describe as shifting clouds.”  
Joseph Schumpeter