



## The Power of Money

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### Abstract

*Although we all use money every day, the nature and functioning of money seem shrouded in commonplace myths and ancient mysteries. Money plays a central role in economics today, yet rarely do we come across a serious, informed discussion of what money really is and what role it plays in the development of society. Money is a remarkable human invention, a mental symbol, a social organization and a means for the application and transfer of social power for accomplishment. This article is the first in a series of articles exploring the origins, nature and functioning of money and its creative power by comparing money with two other pre-eminent social institutions – language and the Internet.*

Money, according to the adage, makes the world go round. And just now the world appears to be spinning wildly out of control, escaping from its traditional orbit and raising the specter of a head-on collision with economy, democracy and the welfare of humanity. Concern with the prevailing monetary system has given rise to calls for abolition of the current system of national currencies, a return to the gold standard, elimination of debt money and interest, reversion to local currencies that were prevalent in earlier centuries, and invention of new forms of money such as energy currency or earth currency linked to productive capacities and natural resources. The plethora of ideas floating around suggest that there is widespread discontent and confusion intermixed with a good dose of myth and superstition regarding the origin, nature and role of money in society.

Rather than hastening to contribute one more solution to the mountain that has been proposed, we may do well to first inquire into the fundamental principles on which money is based and the process by which it has evolved with the development of society. This may help us identify the precise points at which the global monetary system has become vitiated and ensure that any changes we propose are in line with humanity's evolutionary advance.

### 1. What is Money?

Money, according to economists, is a medium of exchange, store of value, unit of account. To which other social sciences might add, it is a source of status and social prestige, a provider of physical and psychological security, a contributing factor to human welfare and

well-being, a basis for military strength, a source of public influence and political power. But these terms merely describe its major functions without really explaining what money is.

Money is an evolving symbol of economic value and social power. Over the past two thousand years, it has undergone numerous changes in form, content and the source of the value it seeks to represent. In early times, money took the form of objects of intrinsic value such as cows, tobacco, furs, grain, and various metals. It later took the form of intrinsically or ornamentally valuable objects such as precious metals, which acquired symbolic value as a representative for many other objects. It was also standardized in the form of coins minted from precious metals, whose value was linked to their metallic content.

The introduction of purely symbolic money as a substitute for material objects marked an important stage in social development. Symbolic money was created based on trust in an issuing institution, such as the receipts issued for grain on deposit in the Pharaoh's warehouses or gold on deposit with London goldsmiths, and the myriad bank notes issued by literally thousands of American banks during the 19<sup>th</sup> century.

Originally intended to reflect existing material assets, money also gradually evolved to represent future intention and purchasing capacity. Promissory notes indicating an intention to pay in future became a powerful stimulus to trade in Renaissance Italy. Wooden tallies issued by the British treasury became prevalent around the same time to represent the Treasury's future tax receipts. The government bonds so prevalent today constituted an essential foundation for the rise of modern nation-states. Ultimately, this led to the issuance of purely fiat currencies, backed only partially by precious metals and anticipated tax revenues. The real backing for national currencies is trust in national institutions of governance supported by the physical assets and productive capacities of the nation issuing them.

The progressive etherealization of money has given rise to endless suspicions, cries of outrage and conspiracy theories, under the assumption that money is, in essence, a physical thing (like the cows and gold nuggets) which has been corrupted and perverted by evil minds. But the etherealization of money has also taken place during the most remarkable period of development in human history and has been associated with a seven-fold rise in real global per capita GDP, so we are advised to seek to fully understand its contribution to human development before condemning and rejecting it wholesale. Closer analysis will show that the growing power of money has always arisen from its symbolic value. Still we are describing only types of money without yet inquiring into what money truly is. We can better understand the power of money by conceiving of it as a purely human creation.

## **2. Language as a Social Organization**

Throughout history, human beings have striven to develop capacities to enhance their power of individual and collective accomplishment. Some capacities are primarily powers of the individual, such as skill in running, climbing, shooting, fire making, cooking. Other powers, such as language, family and government, can only develop and be expressed in relationship with other people. Money is one of the primary collective powers developed by humanity for social accomplishment. Like language, money is an instrument to promote productive, cooperative human social relationships.

Money is one of the greatest inventions of all time. Like language, money is not a thing in itself but rather a social organization designed to promote and facilitate interaction and interchange between human beings over space and time. Language consists of symbolic sounds and images in the form of words, but those words are meaningless objects until assigned a standardized value by members of the community, so they are commonly accepted to represent the same thing to different people. Language is an arrangement and organization of sounds, signs, letters, figures and words in a sequence according to rules of grammar and diction, standardized forms and established conventions, which facilitate communication of ideas, intentions, feelings, sensations and physical facts.

Language has made possible the evolution of Homo sapiens from merely gregarious social animals through civilization and culture into creative, inventive, thinking, learning human beings governed by values, ideals, ideas, prevailing beliefs, customs, laws and a huge body of facts and knowledge derived from past experience. Language is the foundation and medium for interpersonal relationships, family, community, civilization, culture and all higher human attainments. Language makes possible the preservation of past experience, discovery and accumulated knowledge on which civilization is based; the sharing of experiences, ideas and feelings over vast intervals of time and distances in space; the communication of our deeper emotions on which intimate human relationships are founded; and the formulation of dreams, aspirations and ideals which direct our energies for future progress.

The social organization we refer to as language has endowed humanity with a power for individual and collective accomplishment unimaginable for other species. Language generates power and is a form of power – power for communication, knowledge, relationship, production and exchange, war and negotiated peace, governance, education, scientific and technological development, intellectual inquiry and artistic creativity, recreation and entertainment, romance, religious worship and spiritual enlightenment.

### **3. Money as Social Organization**

Money is also a social organization based on generally accepted symbols, set rules, standardized forms and established conventions. Money too depends on acceptance of common standards for form, unit, value and recording. It is a social organization which includes institutions related to minting, issuing, banking, transmission, accounting, taxation, etc. Though originally assuming the form of objects of intrinsic value, the time is long past since the institution of money evolved more symbolic forms which were easier to transport, store and innovatively adapt to represent non-material forms of value.

As language promotes exchange of ideas, information and intentions, money facilitates the exchange between human beings of goods, services and other things of perceived value. Exchange is the social and economic basis for the evolution of society. Without exchange, each human being must rely solely on his own energies to produce all that he desires or on his capacity to take by force that which is possessed by others. Exchange replaces physical violence and war. It makes possible division of labor, specialization and conversion of one type of good or service into any other type. Exchange is possible without money, just as communication is possible without spoken or written language, but in both cases, they are severely constrained in utility, scope, space, time and effective power without the aid of higher symbolic forms.

The evolution from barter exchange to monetary exchange has resulted in enormous social progress – from isolated rural communities into regions organized around urban centers, city states and eventually kingdoms, nation-states and the emerging global community. The evolution of money has facilitated the growth and development of production, commerce, armies, governments, education, science, technology, urbanization and all forms of art.

#### **4. Evolution of Social Power**

When human beings exist at subsistence level, money has little utility, since each person produces just sufficient for self-consumption. At the time of Adam Smith only about 15-20% of production passed through monetarized exchange. Initially, money represented the added value of a commodity when a producer employed his surplus production for trade rather than for self-consumption. As production and trade expanded, money came to represent the power of the society for production and exchange of a wide range of products and services. As society became more complex and integrated, money came to represent the conversion value of one form of social power (productive, political, educational, social, transport, communication, entertainment) into another form. Thus, it evolved into a generalized symbol for all forms of social power and a medium for transfers from one form to another. Production, trade, money, banking, finance, governance, transport, communication, education all form elements of the integrated social organization which is the source of all wealth and power. As recent experience illustrates, the attempt to separate economy or banking from governance shows just how interdependent economy and politics have become. The political power of money in modern democracy is their relationship and interconvertibility.

Society has become a seamlessly integrated whole. All forms of social power contribute to the collective capacity of society to accomplish that underlies the value of money. In the measure that an ordinary bag of grain can now be converted into more education, medical care, entertainment, travel, etc., it has acquired far greater value than the original bag of grain produced by the subsistence farmer in the distant past. Money is a means for multiplying the value of every human attribute and capacity.

#### **5. Internet**

A comparison of money and the Internet may more clearly place money in its evolutionary context. The Internet is the first truly global social organization functioning ubiquitously in space and instantaneously in time. It capitalizes on the powers created by all previous organizations, most especially the communication power of language and exchange power of money, to generate an unlimited power for collective social accomplishment. As an instrument for personal and social communication, it dwarves the power of all the mechanisms previously devised through history from the newspaper to the telephone and television. As an instrument for education, it makes conceivable the delivery of the highest level and quality of education to all human beings in the near future. As an instrument for governance, it makes feasible, if not yet actual, the participation of all citizens in the process of law making. Humanity, which was just a few millennia ago dependent on the beat of the drum for conveying messages quickly through space and rock paintings to record events for posterity, now depends on the Internet, which provides it with the capacity to communicate, exchange and unite as a single social body globally.

## 6. Sources of Social Power

The extraordinary and unique social power of money arises from multiple sources:

**Exchange:** Money facilitates exchange, so valueless surplus acquires value. (An isolated French village around 1900 fed its surplus grape production to the pigs since it had no way to exchange grapes for other things of value. A year after a road and bridge connected the village to the nearest town, it began exporting wine. Like roads, money facilitates exchange).

**Efficiency:** The advantages of money over barter, which requires the double coincidence between buyer and seller, are well documented. As the introduction of Hindu/Arab numerals and double entry book-keeping vastly facilitated the growth of commerce in Italy during the late Middle Ages (imagine trying to multiply and divide with Roman numerals! or to calculate profit from a cash ledger), money vastly facilitated exchange in terms of the variety of products, number of transactions, extended over space and time.

**Energy:** Money is a catalyst for transactions. Exchange energizes people to take greater effort. It provides an incentive for producers to produce more than they can consume and to also produce things of which they have no need, but, which have value to others.

**Trust:** By promoting exchange, money fosters cooperative human relationships for mutual benefit, even among those who do not know each other personally. It promotes trust in others. Each successful transaction increases confidence between buyer and seller and augments the propensity for further transactions. Thus, money encourages the extension of trust which is essential for cooperation and expanding human relationships. Initially, trust is personal in someone we know. Personal trust in known individuals is extended to strangers through the medium of money. At a subsequent stage, trust in individuals and transactions grows into trust in the system for exchange and the institutions that facilitate that exchange (middlemen, processors, distributors, warehouses, retailers, financiers, and customers). Human and institutional relationships expand. Society grows more sophisticated and complex. The individual participates in a widening social network and progressively universalizes his capabilities, similar to the way internet expands the reach of each individual human being.

**Inter-convertibility:** As already discussed, money fosters the formation of complex, integrated societies by facilitating the exchange of one form of social power into other forms. The power to produce crops can ensure protection from famine. The power of a strong military can defend against invasion. Good roads facilitate transportation. Schools and scholars promote advancement of education and knowledge. Political institutions promote effective governance. Each can develop independently, to a certain extent. But in order for society to emerge as a cohesive unit, they need to be integrated. Money makes possible that integration by facilitating inter-convertibility of one form of social power into all other forms.

**Society:** Ultimately, money comes to represent the overall power of society to achieve its varied goals in all spheres of life. Without money, modern society is inconceivable. Without society, money has no value.

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## 7. Myths about Money

*“Liberating ourselves from allegiance to outdated attitudes is the essential condition for converting the current crises into evolutionary opportunities.”*

Money is subject to a range of myths and superstitions that pose serious obstacles to its further evolution. Our notion of money as a thing gives credence to the superstition that it must necessarily be scarce in the same way land and precious metals are scarce resources. But understanding money as a social organization, we perceive that it is capable of infinite multiplication, the same way information, knowledge, law, education and other social institutions can and do multiply. As humanity now possesses the capacity to produce sufficient food, clothing, housing, education

and medical care to meet the needs of all human beings, it also has the capacity to create sufficient money to ensure effective distribution of those necessities.

The evolution of money is a key to universalizing prosperity through peaceful social evolution. The opening up of commercial relations between China and USA in the 1970s is a dramatic example of the power of money to channel human energies from destructive violence to peaceful cooperation. Today, we live in a world with unprecedented productive capacity. Yet, it is also a world in which precious human, social and productive capacities remain underemployed or unutilized. The problem we face today is not incapacity to meet human needs, but incapacity to fully utilize our productive capacities for the benefit of all humanity. Understanding and attitudes toward money constitute a central part of the problem.

So too, the social status traditionally acquired and still enjoyed by the wealthy also supports the myth that scarcity of money is essential for social welfare, the same way feudal aristocracy believed that limiting status and privilege to a rare few – 10,000 families in 18<sup>th</sup> century England – was essential for social stability and preservation of culture. The prevailing ideals and values of the 21<sup>st</sup> century compel us to multiply and distribute the privileges of freedom, equality and social security to all humanity.

The times of scarcity are drawing to an end. Ushering in abundance of freedom, rights, education, wealth and power-sharing will necessitate a breaking of established privileges and entrenched power structures. In the past, this has almost always been accomplished by violent revolution. Today, we have the means to make the transition by peaceful evolution rather than violent revolution. As in the past this process will be driven, not by the permission of the privileged, but by the idealism, aspirations, demands and actions of humanity.

Attacks on the prevailing system of money are an encouraging indication of a growing social awareness and aspiration for a more effective and equitable organization of social power. An impartial, objective inquiry into the social origins, power and evolution of money is the right starting place and essential condition for fashioning a better future for humanity.

The problems the world faces today are because human attitudes have not evolved to keep pace with advances in technology and social institutions. Liberating ourselves from allegiance to outdated attitudes is the essential condition for converting the current crises into evolutionary opportunities.

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