SOCIAL DEMOCRACY FOR THE 21ST CENTURY: A POST KEYNESIAN PERSPECTIVE

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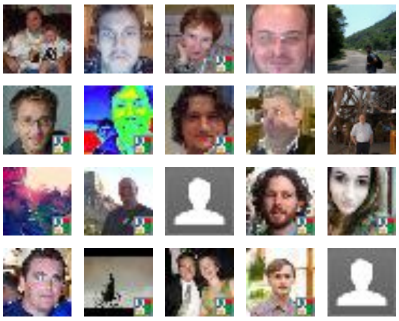

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THURSDAY, NOVEMBER 1, 2012

My Posts on the Origin of Money

I have assembled a set of two lists of links and a bibliography below, as follows:

> **(1)** my posts on the origin of money and the debate between David Graeber and Robert P. Murphy;
> **(2)** some external links on the debate between David Graeber and Robert P. Murphy, and
> **(3)** a bibliography on the origin of money.

First, however, I will give a quick summary of Graeber's view on the origin of money in his recent book (Graeber 2011). It is curious that, in discussion of Graeber's book, many people cannot even get his arguments right. It is important to note that Graeber does not deny that money in some historical circumstances can emerge from barter between strangers, especially in long distance trade. Graeber cites the cacao money of Mesoamerica and the salt money of Ethiopia as instances of money emerging through barter (Graeber 2011: 75; on Ethiopian salt money, see Einzig 1949: 123–126). Graeber also cites the views of Max Weber (1978: 673–674) and Karl Bücher (1901), who argued that money emerged from barter between different societies, not within societies (Karl Polanyi may also have held a position close to this). What Graeber denies is that the Mengerian or the barter spot trade theory is a *universal theory of the origin of money*.

Money-less societies are frequently dominated by debt/credit transactions, or "gift exchange," not by barter spot trades. Even in cases where goods exchange for goods in spot trades, social relations can complicate matters considerably, and historically barter seems to have been prevalent between one community and another, or, that is to say, between people who were strangers and where relationships were implicitly or explicitly hostile (Graeber 2011: 29–30).

While a non-enumerated system of debts/credits or gift exchange might not give rise to money, there is clearly a role for debt in the history of money (Graeber 2011: 40). In the real world, gift exchange and debt/credit arrangements existed long before money, and societies could develop an abstract unit of account in which debt/credit transactions were still the predominant system (Graeber 2011: 40). The use of coinage, when it was developed, could remain uneven and coins scarce.

In a society where debt/credits are the major transaction, IOUs/debts can be transferable and used as a means of payment or medium of exchange. Graeber thinks of an example:

> "Say, for example, that Joshua were to give his shoes to Henry, and, rather than Henry owing him a favour, Henry promises him something of equivalent value. Henry gives Joshua an IOU. Joshua could wait for Henry to have something useful, and then redeem it. In that case Henry would rip up the IOU and the story would be over. But say Joshua were to pass the IOU on to a third party—Sheila—to whom he owes something else. He could tick it off against his debt to a fourth party, Lola—now Henry will owe that amount to her. Hence money is born." (Graeber 2011: 46).

A type of medium of exchange could emerge in theory in this way in small communities, or communities of specific people like merchants where IOUs can be verified. The empirical evidence demonstrates that this is precisely how promissory notes and bills of exchange become a medium of exchange. A kind of debt money can emerge in communities where there exist people willing to accept it or cancel the debt IOUs (Graeber 2011: 74). Graeber notes how for centuries English shops issued their own wood, lead or leather token money as debt money redeemable at the particular merchant's store (Graeber 2011: 74). Graeber's eclectic view on the origins of money is expressed in this way:

> "Throughout most of history, even where we do find elaborate markets, we also find a complex jumble of different sorts of currency. Some of these may have originally emerged from barter between foreigners: the cacao money of Mesoamerica and the salt money of Ethiopia are frequently cited examples. Other arose from credit systems, or from arguments over what sort of goods should be acceptable to pay taxes or other debts. Such questions were often matters of endless contestation." (Graeber 2011: 75)

Graeber, however, doubts that local or community debt/IOU money systems can "create a full-blown currency system, and there's no evidence that they ever have" (Graeber 2011: 47). But this is where Georg Friedrich Knapp's (1842–1926) chartalist theory of money comes in (see Knapp 1905; Knapp 1973 [1924]). When the state issues IOUs it can do so on a large scale, and then demand the same IOU tokens back as payment of taxes. Graeber notes the use of tally sticks in the Middle Ages: the British exchequer could issue them, and they would circulate as tokens of debt owed to the government (Graeber 2011: 48–49), but also circulate as a medium of exchange within England accepted for payment of taxes (Davies 2002: 146–151). Graeber (2011: 59–62) also refers to the thesis of Grierson on how wergeld-like customs could create a system of measurement of relative values (Grierson 1978: 11; Grierson 1977).

The origins of money, then, lie in different sources, and not simply in a barter origin of money theory.

Graeber also notes how primitive monies (called non-commercial money or social currency) – like shell money in the Americas or Papua New Guinea, cattle money in Africa, bead money, feather money, and so on – are often rarely used to buy everyday items in the societies that use them. Instead, they are employed in social relations like marriages and to settle disputes (Graeber 2011: 60). A commercial money can most probably arise through non-commercial money.

The story of money is thus rather more complex than neoclassical economists or Austrians imagine.

My list of posts on the origin of money and the other links are below:

> "Debate on the Origin of Money," August 25, 2012.
>
> "The Origin of Money in the Digest of Justinian," August 21, 2012.
>
> "Alfred Mitchell Innes on the Credit Theory of Money," March 24, 2012.
>
> "A Note on Menger on the Nature and Origin of Money," July 28, 2012.
>
> "Philip Grierson on the Origin of Money," March 21, 2012.
>
> "Observations on Non-Commercial Money," February 18, 2012.
>
> "Money as a Unit of Account and its Origins," February 11, 2012.
>
> "Quiggin on the Origin of Money," February 10, 2012.
>
> "David Graeber on Debt and Money, Part 2," February 9, 2012.
>
> "David Graeber versus Robert Murphy: A Review," January 24, 2012.
>
> "David Graeber on the Origins of Money," January 23, 2012.
>
> "Bibliography on the Origins of Money," January 19, 2012.
>
> "Alla Semenova on the Origins of Money," January 15, 2012.

"Mises on the Origin of Money," January 12, 2012.

"The Origins of Money," January 8, 2012.

"Menger on the Origin of Money," January 5, 2012.

"Money as Debt," December 26, 2011.

"David Graeber's Response to Robert Murphy," September 9, 2011.

"The Origin of Coinage in Ancient Greece," April 29, 2011.

EXTERNAL RESOURCES

Graeber, David, 2009. "Debt: The First Five Thousand Years," Eurozine.com, 20th August.
An early summary of Graeber's work on debt.

"What is Debt? – An Interview with Economic Anthropologist David Graeber," Nakedcapitalism.com, August 26, 2011.
The original interview with Graeber that sparked the debate.

Gene Callahan, "Fiat Currency," Saturday, August 27, 2011.
A summary of Graeber's interview that sparked off a debate between Gene Callahan and Robert Murphy.

Robert P. Murphy, "Have Anthropologists Overturned Menger?," Mises Daily, September 1, 2011.
This is Robert P. Murphy's response to Graeber's interview at Nakedcapitalism.com.

Robert Murphy, "David Graeber's Response to My Article," Mises.org, September 8, 2011.
This is a summary of David Graeber's comments on Robert P. Murphy's article "Have Anthropologists Overturned Menger?."

Robert Murphy, "Murphy Replies to David Graeber on Menger and Money," Mises.org, September 8, 2011.
This is Murphy's reply to David Graeber's comments.

David Graeber, "On the Invention of Money – Notes on Sex, Adventure, Monomaniacal Sociopathy and the True Function of Economics. A Reply to Robert Murphy's 'Have Anthropologists Overturned Menger?,'" September 13, 2011.
David Graeber's final response to Murphy, published on Nakedcapitalism.com.

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B[?], A. R. 1925. "*Heiliges Geld: Eine historische Untersuchung über den sakralen Ursprung des Geldes* by Bernhard Laum" (Review), *Economica* 14: 218–222.
N.B. The surname of the author is not listed.

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POSTED BY LORD KEYNES AT 3:01 AM
LABELS: DAVID GRAEBER VERSUS ROBERT MURPHY, ORIGIN OF MONEY, POSTS

22 COMMENTS:

Jonathan Harris November 1, 2012 at 5:17 AM

"What Graeber denies is that the Mengerian or the barter spot trade theory is a universal theory of the origin of money."

It's not quite clear to me from your emphasis, but I guess that 'universal' is the key word?

It is a shame that no-one's found some record of barter exchange in ancient Mesopotamia developing into token exchange. That would have made things very neat and tidy. Unfortunately, as you say, the origin of money is frustratingly more complex.

The problem I have with Graeber & the focus on Debt, is that underneath the shifting sands of all these theories (barter included) is the hard rock of property and exchange (or as I prefer to call them, Owning and Owing). Graeber mixes up the dry powder of Rospabe's Primitive Money theory and Primordial Debt theory to try and make some impact, but (for me) fails to do so significantly. (That's not to downplay the importance of Graeber's work in exposing the weakness of barter theory).

But an excellent bibliography, Lord Keynes. I know you've done similar before, but these really are most welcome. And of great value to folks like me. Thank you.

Personally, I'd always include Glyn Davies 'A History of Money' in any list like this. I guess you could argue that it's history rather then origin, but when he writes sentences like this, that suggest something universal and fundamental about money, I think he deserves a place (even if Graeber was somewhat dismissive of him in Debt - 5000 yrs)

"...there is an unceasing conflict between the interests of debtors, who seek to enlarge the quantity of money and who seek busily to find acceptable substitutes, and the interests of creditors, who seek to maintain or increase the value of money by limiting its supply, by refusing substitutes or accepting them with great reluctance, and generally trying in all sorts of ways to safeguard the quality of money."
Glyn Davies A History of Money (1994) (p. 29)

Reply

George November 1, 2012 at 9:44 AM

Money-less societies are frequently dominated by debt/credit transactions, or "gift exchange," not by barter spot trades.

That's still BARTER trading.

Barter encompasses both credit and spot.

Menger theory does not hold that barter cannot be credit based, even though he typically used spot for explanatory purposes.

The key component of Menger's theory is that the value of a commodity that is money is borne out of its value prior, before it became a money, when it was a good that traded for other goods in barter transactions, which as said, can be both spot and credit.

Graeber is actually imposing his own theory to interpret the empirical data he found. He is not a value free author who is allegedly letting the data speak for itself. Nothing in his book conclusively contradicts Menger's theory.

Reply

Replies

Lord Keynes November 1, 2012 at 10:39 AM

"That's still BARTER trading.

Barter encompasses both credit and spot."

Even if you want to declare credit/debt transactions in real goods a form of barter, this is ultimately just a red herring argument, that does not in any way refute the criticisms of the Mengerian account of money's origin, for that theory *still assumes barter spot trades*, and even Robert Murphy agrees:

In a crucial passage, Graeber says:

> "[T]he flaw in the barter theory of the
> origin of money is that barter presumes
> SPOT TRANSACTIONS. There is no reason

> whatsoever to presume that neighbors
> would limit themselves to spot
> transactions in dealing with one
> another. However, if one does not
> presume spot transactions, then
> the notorious problem of the "double
> coincidence of wants" does not occur.
> You end up with a system of broad,
> non-enumerated credits, and this is
> precisely what those who actually did
> research on communities that do not use
> money did find."

This is an excellent point, and Graeber is right: In the standard exposition of a barter economy, economists typically think in terms of spot transactions. But in principle, there's no reason to restrict ourselves in this way. *If we can imagine a farmer trading a pig for an axe, we can also imagine a farmer trading a pig for a promise to deliver an axe in two weeks.*

Graeber is also right that the possibility of credit transactions expands the scope of a moneyless economy, and mitigates the problem of finding a double coincidence of wants.

http://blog.mises.org/18371/murphy-replies-to-david-graeber-on-menger-and-money/

George November 1, 2012 at 4:45 PM

But in principle, there's no reason to restrict ourselves in this way.

In other words, there is nothing in the Mengerian theory that compels us to restrict our attention to spot barter trades, *even if* Menger himself only ever considered spot barter trades in his explanations.

It would be like criticizing an ancient text on economics on the basis that the author only considered salt in his explanations of money, rather than gold, or fiat notes, and other forms of possible money.

The core of Menger's theory is a commodity becomes money via prior valuation as non-money, i.e. barter.

Murphy is being rather generous to Greaber.

Lord Keynes November 3, 2012 at 1:15 AM

So now you reduce the "Mengerian account" to a much weaker claim: a "commodity becomes money via prior valuation as non-money."

Even that does not necessarily follow: the commodity could have been valued as a weight measure, e.g., as silver in an ancient temple.

Reply

JP Koning November 2, 2012 at 8:34 AM

The Graeber - Menger debate is just a pissing contest that should probably be ignored.

While the concept of "money" in day-to-day language is useful, "money" is (or at least should be) an empty concept in economics. The proper way to thing about the "things that we trade often" is in terms of moneyness. Moneyness is like a Keynesian liquidity premium (and you should be familiar with that, being the ghost of Keynes and all).

From an economic standpoint, Who cares if moneyness gets attached to a credit instrument like a bill of exchange, or if it gets attached to a commodity like gold or bitcoins? The important concept isn't the underlying object, but the property of moneyness. The key question isn't the origin of money, but the origin of moneyness.

Reply

Replies

Julia Riber Pitt November 2, 2012 at 12:00 PM

Actually, this matters quite a bit. What Graeber's historical facts should be used for is challenging the ruling ideology that money and markets are a "natural" outcome of human behavior rather than institutions that were forced on populations by the state.

JP Koning November 2, 2012 at 2:27 PM

Julia,

Using the word moneyness pivots the argument from "is money the natural outcome of x" to "is a given asset's moneyness the natural outcome of x."

And when that pivot happens, then it's evident that probably both the state and the individual are responsible for giving an asset its degree of moneyness.

Put differently, the point you bring up shouldn't be an either/or question. It's a shade of grey question. Unfortunately, using the word "money" immediately shifts the debate into either/or territory. And that's when the debate turns into into an unhelpful pissing match.

Ivan Denisovich November 2, 2012 at 3:06 PM

Yes, I really feel the heavy hand of State oppression when I buy CDs at my local flea market. And how much easier things would be if I had to beg or barter for the CDs instead of buying them with State-imposed money. Money and markets are instruments of human liberation, which is why totalitarian regimes like the Khmer Rouge abolished them.

ALima November 2, 2012 at 6:19 PM

If money and markets are not natural outcomes of human behavior where then could they have posibly come from? It just isn't reasonable to think humans could have designed such elegent solutions to resource distribution and general welfare. Most attempts to eliminate either has resulted in chaos and death.

Lord Keynes November 3, 2012 at 1:11 AM

Humans designed the pyramids and technology to get them to the moon.

Yes, no doubt some clever people in a Sumerian temple could not have devised an abstract unit of account based on a weight measure like silver.

Tell me another fable.

Ivan Denisovich November 3, 2012 at 5:18 AM

Fair enough, but Sumerians priests could not force the rest of the world to use gold and silver as the currency for their transactions. The invention became very popular because people found it useful.

ALima November 5, 2012 at 9:01 AM

Pyramids and moonshots are child's play compared to the staggering complexity of markets. Much less useful as well. Money is not an invention but a result of billions of acts playing out over time. The physical form it takes can change but its role in human actions does not. Humans will immediately abandon any manifestation of money that does not serve their needs. No government can change this, no institution can control it.

Vilhelmo July 18, 2013 at 5:19 PM

ALima

"If money and markets are not natural outcomes of human behavior where then could they have posibly come from?"

Evidence indicates both markets & money to be creatures of law & government.

For most of human history they did not exist.

Reply

Freshly Squeezed Cynic November 3, 2012 at 8:26 AM

"Fair enough, but Sumerians priests could not force the rest of the world to use gold and silver as the currency for their transactions."

Not the rest of the world, but priests at this point would have a fair amount of temporal power (the church/state barrier being considerably more fluid than it is), and if you make requirements that taxes or tithes must be paid in certain amounts or certain forms, such as silver, or silver equivalents, in order to calculate the necessary amounts that people should be contributing, then you are going to have something developing in that vein. I believe Graeber makes the point as well that law codes and compensation are also a good place to look for in terms of the development of money; the Welsh medieval law code has thousands of different items and their relative compensations laid out, often on things that in all probability would not be commodities you would tend to find actively for sale in a medieval town market.

There's certainly the point that the invention is useful, and that's why it gets adopted in wider terms but it didn't just emerge spontaneously out of the aether, either; there was human intention and design involved, not merely the vagaries of what would have been, back then, a minimal market economy.

We're also shortening the timeframe here; we don't go right from "Sumerian priests" to a moneyed economy; it's a long-term development. Really, really, really long term; to be honest, I don't think we can really start talking about a proper, important monetary economy till the 18th/19th centuries. Before then there's still a lot of things transferred in kind or in goods and benefits; Rent to the landlord of two pigs and a bag of grain every year, that kind of thing.

Reply

Replies

Ivan Denisovich November 3, 2012 at 5:35 PM

The city states in ancient Greece started minting their own coins in 500 BC, which led to markets for a wide range of goods. Money has developed in too many places at different times to be explained by idiosyncratic factors. The common feature that made the use of money popular in different places is the trade of goods in markets.

Lord Keynes November 4, 2012 at 1:52 AM

But who invented coins? They were not invented in Greece, but in Lydia.

The standard view is that the Lydian state minted the first coins, and did so to pay soldiers and mercenaries:

Cook, R.M. 1958. “Speculation on the Origins of Coinage,” Historia 7: 257–262.

Kraay, C. M. 1964. “Hoards, Small Change and the Origin of Coinage,” Journal of Hellenic Studies 84: 76–91.

Peacock, M. S. 2006. “The Origins of Money in Ancient Greece: The Political Economy of Coinage and Exchange,” Cambridge Journal of Economics 30: 637–650.

Ivan Denisovich November 4, 2012 at 10:21 AM

Doesn't really matter who invented coins. The point is that they were acceptable as wages because they could be exchanged for goods, not because the soldiers wanted the gold and silver in them. Money without markets is not money. I believe the Lydians also established the first shops.

Vilhelmo July 18, 2013 at 5:12 PM

In the case of Sumerian silver money, it was the public sector that acquired, refined, issued, set as the unit of account, denominated debts in and valued by fiat, silver into the economy.

Vilhelmo July 18, 2013 at 5:16 PM

Ivan Denisovich
"Doesn't really matter who invented coins. The point is that they were acceptable as wages because they could be exchanged for goods, not because the soldiers wanted the gold and silver in them."

Coins had demand because of their acceptance in payment of taxes.

Money existed before markets, contrary to what you wish to be the case.

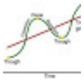
Reply

SpiritSkill November 5, 2012 at 1:17 AM

LK

I also enjoyed Wray's recent paper "Introduction to an Alternative History of Money" - May 2012 Working Paper no. 717 Levy Econommics Institute.

Reply



Makrointelligenz November 5, 2012 at 5:39 PM

As there seems to be a really sophisticated readership here i thought i might get a good answer to the question here: How much is the Bundesbank worth? There was some discussion here in Germany because of the questionable claims the Bundesbank has to other central banks which might vanish when the Eurosystem should desintegrate (both unlikely imo but ok). I have some thoughts layed out here,
http://makrointelligenzint.blogspot.de/2012/11/how-much-is-central-bank-worth-what.html
but I m sure there is someone smarter than me here that could come up with something interesting.

Reply

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