Money is changing and so should we – *Part One*

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If you owe your bank a hundred pounds, you have a problem. But if you owe a million, it has.
– John Maynard Keynes

The existence of cash can easily be taken for granted. But it's time to realise its role is changing and, as a global society, we should adapt to a situation which has been evolving for some time.

What is money? This may sound like the opening to the kind of discussion to be heard around a bar littered with empty glasses. But it is fact a serious question. We use the term every day and generally take its meaning to be the billions of bits of paper and metal which exchange hands all around the world.

It hasn't always been like this, though, and right now we're in a transition between one of history's *cash* periods and one of its *virtual money* periods. I say "one of" because virtual money is by no means an invention of the digital age.

Adam Smith's assertion that first there was a barter economy, then cash, then debt is historically inaccurate.[1] For barter to work, both parties would have needed to simultaneously want precisely what was on offer. Even if this was the case, a direct *spot* trade was rarely possible. If the village farmer and shoemaker did business with each other, how could they trade equivalents? The price of a pair of shoes may have been say, 15 days' worth of lamb, but the farmer only needed a pair of shoes once every few months and, in the absence of refrigeration, the meat wouldn't have lasted more than a day anyway!

What really happened, in places such as 3rd millennium-BC Mesopotamia was that there was no barter but complex financial systems of recording accounts, so that traders were compensated for their sales. Every few months, the whole village would reckon up. If someone didn't pay, they'd incur the wrath of the entire community (and as far as we know risk being excluded from the community economy).[2]

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[1] http://www.theatlantic.com/business/archive/2016/02/barter-society-myth/471051/

[2] http://www.bbc.co.uk/programmes/b054zdp6/episodes/player

Coinage didn't become popular to simplify trade: major ancient trading powers, such as the Phoenicians and Carthaginians, were actually among the last to mint coins. It came about to pay soldiers to seize gold and silver from sanctuaries and palaces.[3] As enough provisions for an army couldn't easily be dragged across vast empires, the soldiers would use some of their gold and silver to buy food from the locals – after all, intelligent merchants were unlikely to offer credit to someone who fights battles for a living!

Being very keen to recoup some of those precious metals, the heads of Empires developed systems of taxation. However, the use of coins continued to be restricted, in the main, to areas populated by the military such as the great cities of empire (which needed to be defended) and along frontiers (which also needed to be defended and offered scope for expansionary excursions too). Great empires required great defences (which as any modern football manager would tell you can at times be just as expensive as great attacking capability) and this inevitably led to overreaching and in turn to the first debt crises. These were often accompanied by great unrest. The constitutional states of ancient Athens and Rome, which developed from such situations, were keen to introduce coinage.

One consequence of the popularisation of coinage was that, as money was no longer simply a credit arrangement, debt crises were almost never solved by just cancelling debts. Instead, the solution was to throw money at it. In Athens, there were no debt cancellations as such, but the government came up with excuses to distribute coins to its poorer citizens in a kind of reverse taxation. People received coins for civic activities, including jury service, manning the fleet, attending the assembly, even attending the theatre.[4] This was a significant change in the form of 'jubilee', the periodic re-sets that had been undertaken since the earliest civilizations at Ur,[5] as explained by my eminent IDEAeconomics colleague Michael Hudson, to prevent excessive indebtedness becoming a systemic problem.

The new physical approach to currency worked for a while but, by around 600AD, our forbearers had to face the paradox that the greater the money creation, the greater the likelihood of an ensuing liquidity crisis. Almost three millennia ago the increasing importance and value of currency led to most gold and silver being cached in temples, monasteries and other sacred places. Consequently, everyday money had to become virtual again. In Europe, Roman denominations were still used to keep accounts but sufficient physical currency for settlement no longer existed. Instead transactions were settled using debased local coinage, leather tokens or tally sticks. The Islamic world and India used paper records, similar to cheques.[6]

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[3] *idem*

[4] *idem*

[5] http://michael-hudson.com/wp-content/uploads/2010/03/HudsonLostTradition.pdf

[6] http://www.bbc.co.uk/programmes/b054zdp6/episodes/player

In Part 2, I take a look at how we went back to physical money before the global economy's gradual move back to virtual currency.

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