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Money as a Human Invention: One More Look at Their Evolution

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One More Look at Money as a Human Invention

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Abstract. The article deals with the authors' reading on the genesis of money from commodity money to digital money and crypto currencies. The authors try to define the nature of money despite the diversity and changes of their forms. The determinants imposing expansion of geographical scope in the use of certain currencies are analysed. The authors think that there are different independent ways for the future (r)evolution of money. The first is the devel- opment of digital forms of certain powerful national currencies. The future of crypto currencies as real currencies, fulfilling all the functions of money, is questionable. But authors are convinced that gold – the classic form of money, will be eternal currency, but especially as a store of value.

Key words: Money, gold, international money, crypto currencies.

The nature and evolution of the forms of money.

There is no universally accepted definition of money because of its many forms and different being, even though they are at the center of economic life during different eras.
But most researchers accept that they are a means for bargain, that they facilitate commodity exchange and are a better alternative than barter [10]. Logically, the first evolutionarily form of money is **commodity money** – a natural successor to barter. The money used is cattle, salt, shells, mussels, certain stones, grain (barley, wheat), whale teeth, cocoa beans, alcohol, tea, tobacco ... The word *pecuniary* (monetary) is derived from the Latin *pecus* which means "livestock" – one of the many things used for money [11].
Gradually, because of their homogeneous nature, because of their value, durability,
because of their small volume and the possibility of divisibility, **metals** are manifest- ed as money. As such, in the very beginning of human history precious metals are used – gold and silver, and less often the base metals – copper, bronze, iron. Gold and silver pieces, gold or silver dust were also used as payment methods. [7]
At some stage, coin cutting begins to avoid the need to weigh the scrap metal or scatter dust. The practice of counting money is evidenced by the Old Testament – when buying his land, the prophet Jeremiah wrote: "I weighed him the money, seven- teen shekels of silver." (Jeremiah 32: 9) [9]
It is believed that the first coins appeared in China and in the ancient Lydian King- dom (present-day Western Turkey) in the 7th century BC. The first kings involved in the minting were the Lydian king Aliat (in Sardi, the capital of Lydia) and his son Croesus [3], [6]. The first coins in Lydia, like the one discovered in Sozopol in the summer of 2014, were made from a natural blend of gold and silver known as *elec- tron*. Famous for his treasures, King Croesus replaced these coins with others that were made almost entirely of one metal – gold or silver. [9] For a long time, both, gold and silver are used in coin-cutting. The exchange between the two precious met- als takes place in a proportion formed by the market or by law. Deviation in

this pro- portion from the actual value ratio of gold to silver leads to sharp fluctuations in pric- es, expressed in different monetary equivalents and to significant anomalies in mone- tary circulation. It happened in England in the 18th century. [10]

In addition to *valuable* money, with the development of coinage, the so called *bil- lon* or exchange coins emerge. These are coins whose face value exceeds the real value of the precious metal contained in them. They are introduced for the purpose of obtaining income from the state treasure called *seigniorage* – equal to the difference between the face value of the coins and the cost of printing them.

In the 13th century, the first international coin appeared – the gulden, whose name means "gold coin". Guldens were minted simultaneously in many countries until the early sixteenth century, before their ever-increasing supply with reduced value began, and before they became silver. [7]

Since about 1800 there has been a natural transition to monometallism, in particu- lar to the gold standard. Gold coin money circulated in monetary circulation until the outbreak of World War I – 1914.

It should be summarized that, back in antiquity, in addition to valuable money (precious metals), the inferior ones functioned successfully. Subsequently, the inferi- ors are presented mainly through debt instruments issued by banks and governments, and in particular they are banknotes, treasury tickets (bills), bills of exchange, promis- sory notes, checks. The most used representative of credit money is ***banknotes***.

Their name derives from a *bank note* – bank paper, bank bill, bank receipt... Spe- cialized publications and dictionaries define them as exchangeable bearer records issued by the bank. [14] Banknote holders could always turn them into gold or use them as a means of payment. Initially, banknotes were issued by each bank, but in the 17th century, the first central banks were created in Sweden and England, and gradu- ally the government centralized the issue of banknotes in order to control the money supply and the realization of monopoly income – seigniorage.

The classic thesis of identifying money with gold was valid until the outbreak of World War I, when the exchange of banknotes against the universal equivalent was terminated.

Even when gold was fully functioning as a universal equivalent, the beginning of the withdrawal of money from the rest of the commodity world and gold began. Then there is ***paper money***, which is often incorrectly identified with banknotes. The two forms of money, however, have different origins, though their peculiarities are gradu- ally eroded.

China is considered the birthplace of paper money. The first paper money was spe- cial receipts issued against valuables given in special warehouses or as evidence of paid taxes. In the 13th century, Genghis Khan freely exchanged paper money for gold, so counterfeiting paper money produced huge profits and was considered a terrible crime. By 1500, the Chinese government was forced to suspend the issue of paper money because of the difficulties associated with excessive issues and inflation, but existing Chinese private banks continued to issue. [3]

The process of withdrawing money from gold is painstaking, passing through the gold-bullion and gold-currency standard, which existed for a short time – from the beginning of the 1920s to the World Economic Crisis from 1929 to 1933. A curren- cythat retains its relationship with gold, but fairly conditional, is the US dollar. Until 1971, it was partly convertible into gold only for official transactions by central banks of the IMF member countries.

So it naturally comes to the so-called ***fiat*** money – money issued by the govern- ment in the person of its central bank, which has no substantial value. They gain value through the process of exchange through the purchase of goods and services. The state, represented by the central (issuing) bank, regulates their quantity in circulation, maintaining their purchasing power.

The appearance of banks and the emergence of checks is the basis for the existence of ***non-cash*** money – money, such as a record in the account of a natural or legal person, which can easily be transferred in commercial transactions, on the basis of correspondent relations between banks.

As a result of the evolution of money these days, electronic money – money that can be "real-time" transferred from one account to another – emerges under the influ- ence of non-cash payments and new information technologies. Their medium is an electronic payment instrument, most often a bank card.

Since the creation of the first digital currency, bitcoin, in 2009, there are nearly 3,000 **cryptocurrencies** today [16]. In essence, cryptocurrencies are a medium of exchange based on a decentralized peer-to-peer network. It is designed with the help of cryptography, which displaces the need for a central bank to validate and control transactions. Although research shows that the cryptocurrency market is valued at $

856.36 billion in 2018 and is expected to grow by more than 10% over the next 5 years [12], in our opinion cryptocurrencies have the characteristics of assets used for investment and speculative purposes such as stocks, futures and other financial in- struments. The significant volatility of cryptocurrency prices, as well as their non- acceptance in mass transactions, makes it impossible for them to perform the primary functions of money, and therefore the misappropriation as a form of money manifes- tation.

In parallel with the advancement of money under the influence of globalization and information technology, the reverse is also observed, although it is a minor phenome- non – the creation of **local money or parallel currencies**.

This money is used within a certain administrative-territorial unit (for example, a municipality). Local money has two genesis – political and economic [10]. One of the most successful local currencies was invented in 2003 by Christian Geller, an eco- nomics teacher at the Prien am Himsee in Bavaria, called *Himgauer*. [6] Other re- gional currencies are not convertible to the euro and their value is mainly that they can be used to pay for goods and services of certain companies. This is the WIR par- allel currency used in Switzerland for 80 years. [2]

Local money achieves greater independence from government money and in many cases enhances the local economy and social cohesion. Some revolutionary authors even consider local money to be an effective way of reducing the influence of banks and large international concerns. [7]

Although it is difficult to give an accurate definition of money, we agree on a con- sensus between the two strands in economic theory – Keynesian and monetary, as well as the opinion of Keynesian-neoclassical synthesis that money is the most liquid asset, which at minimum cost of money and time fulfils its functions. Today, electronic technologies produce money and quasi-money in an abundance of forms, and public authorities seek to regulate them, both in order not to cause unpredictable and uncon- trollable economic turmoil, and to maintain a monopoly role in monetary issue and monetary policy.

International money

An analysis of which money serves the international economic exchange is worth a place. These are:

Some national currencies with international functions;

Regional or global monetary units – supranational money.

During the period of the gold standard until the First World War, gold comprehen- sively fulfilled the functions of world money – universal means of payment, measure of value and universal materialization of public wealth. To a very limited extent, the role of gold as world money remained until August 1971, when Nixon announced the cessation of the US dollar exchange for gold. This breaks the last thin strand of gold as valuable money with the international monetary system.

The role of international money is already being fulfilled to one degree or another by the national currencies of the largest and most developed countries.

International money fulfils the inherent functions of money – a means of exchange, a measure of value and a means of accumulation, except in a wider territorial scope. The place and role of national currencies as international currencies can be represent- ed by the so-called currency pyramid (Fig. 1).

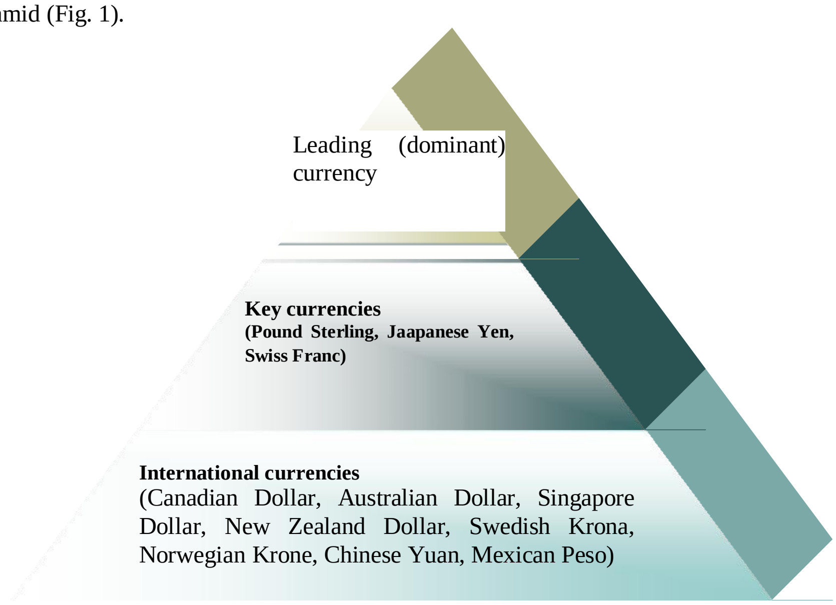

Fig. 1. Hierarchy of international money

At the top of the pyramid is the *dominant currency* (the leading or leader curren- cy). Until the First World War, the British pound played such a role, but it gradually lost its position. After World War II, the dollar was the dominant currency for nearly half a century. With the advent of the common currency of the Eurozone countries, the euro, part of the dollar territory is taken away. With a considerable degree of con- dition, the euro can also be regarded as a leading currency (however it is supranation- al), but far behind the dollar. *Key currencies* fulfill all the functions of international money, but are inferior to the dominant currencies in terms of development and range. Such currencies today are the Pound Sterling, Japanese Yen and Swiss Franc. *Interna- tional currencies* are most commonly used as a means of payment, and also at favour- able opportunities – as a means of accumulation. This group includes Canadian and Australian dollars, Swedish and Norwegian kroner, Singapore dollar, New Zealand dollar. There is an increasing presence in the investment portfolios and instruments denominated in Chinese yuan and Mexican pesos, as well as increased use in pay- ments of Chinese yuan and Russian rubles.

Countries whose currencies are in international positions earn serious income in the form of seigniorage. Even more profitable is the use of such currency to finance the deficit in the balance of payments of the issuing country, a situation known as "deficit financing without tears".

Supranational money is the product of trade and monetary unions. One of the most famous is the Hanseatic Monetary Union of the Free Cities of North Germany in the 13th-17th centuries. The Union builds and maintains a trade monopoly in the Baltic Sea, part of the North Sea and much of Northern Europe. The cities of Hansa have their own laws, and they provide each other with help and protection. The capital of Hansa is the city of Lübeck, located in northern Germany. Other cities are Hamburg, Bremen, Rostock. [13]

Modern supranational currencies are preceded by collective units of account that only function as a unit of account. The typical unit of account was the European Unit of Account (EUA), created in 1975 (March) by EEC Member States, formed on the basis of a currency basket. It inherited the unit of account in effect until August 1971, equivalent to the then gold content of the US dollar. Significant supranational curren- cies from the recent past are the European Currency Unit (ECU), the precursor to the euro, and the transferable ruble, the clearing currency of the member states of the Mutual Economic Assistance Council.

The most famous supranational currencies today are the euro, which replaced the ecu in 1999, as well as the currency of the International Monetary Fund – Special Drawing Rights (SDR), created in 1969. However, SDRs are primarily used in offi- cial transactions between IMF Member States regarding balance of payments issues. They are almost irrelevant to private commercial and financial transactions.

President Trump's foreign policy, strengthening the role of regional economic un- ions, including the Eurasian Union formed in 2015, as well as other international factors lead to an increase in the relative share of transactions in national currencies other than the dollar [8] and supranational ones. On the other hand, the volatility of the European continent and the restrictions on China's monetary policy contribute to preserving the rule of the dollar in the foreseeable future.

Instead of a conclusion ... Is gold international money?

As early as the end of the 19th century, JP Morgan said that "gold is money and noth- ing else!" [5] So is our opinion.

In accordance with the Jamaican Currency Agreements of 1976, which marked the beginning of the modern world monetary system, the use of gold as a means of pay- ment and unit of account is prohibited. However, its function as a means of accumula- tion is retained, reflecting the ability of central banks to store the international mone- tary reserve as well in gold in the form of exchange standard bullion weighing about

12.5 kg and with a minimum purity of 995/1000. [10]

Many authors believe that gold will never lose its value, and are advocates of the thesis that, despite attempts to separate gold and money, this is impossible. Gold, unlike credit, does not depend on a third party. The non-standard economist Michael Morris points to the power of gold in the fact that "banks reject it so strongly and without reservation (gold – author's note) and do everything they can to prevent a new introduction of the gold standard ...". [7] Many investors, sometimes referred to as beetles (because of the golden color of the metal), prefer to own gold assets for "rainy days". [6]

The reasons for the leading place of gold in investment processes are: 1) it is easily traded, its price is not related to the movement of any currency and is accepted eve- rywhere in the world; 2) retains its value even in the face of inflation, since gold de- posits are limited; 3) does not carry the risk of bankruptcy, unlike the loan and its forms. Proof of the attractiveness of gold is the dynamics of its price and the fact that it always goes up in the face of war or financial crisis.

Fig. 2. Gold price for troy ounce
Source: https://goldprice.org/gold-price-history.html

There are also sceptics about the future of gold and its role in the international monetary system. They believe that gold is no longer its mainstay, as its price is often influenced by rumours or speculation. Moreover, gold pays nothing to its owners – interest or dividends, and is also expensive to store and transport.

Long periods of near-zero and even negative interest rates, as well as monetary missteps from developed countries that stimulate gold appreciation, [4] defy specula- tion about the diminishing importance of gold as an investment asset.

Despite the diversity of views, as well as the keen interest in new investment vehi- cles such as cryptocurrencies, gold is an inherent asset in the portfolios of an increas- ing number of individual and institutional investors, as well as the basis of multiple exchange traded funds (ETFs). Increasing political and economic uncertainty, as well as the new dimensions of globalization, necessitate a shift of the dollar to gold in the countries' gold and currency reserves. [1] But one thing is for sure – modern monetary systems are fundamentally different from previous ones, based on the gold link.

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