

The nature of money

Classically, there are said to be three, or sometimes four functions of money – means of payment, store of value, unit of account, and possibly 'standard of deferred payment'. But there are issues as to which (if any, I suppose) is primary either in the sense that without that there could be no money, or historically prior in that in fact the emergence of money is attributable to it. Menger (1892) is the classic statement of an often-repeated story supposing that an evolutionary development of a means of payment explains the historical emergence of money, and presumably also makes that role logically primary. The argument is given a modern form by Kiyotaki and Wright (1989), but what, exactly, do they add to Menger? The view that the 'unit of account' role is primary was advanced by Innes (1913) and Innes (1914) and then adopted by Keynes (1930) chs 1 & 2. and in more recent versions can be found in, for example, Ingham (2004) ch 3 (or chapters 2 and 3) or Tymoigne and Wray (2006) or Wray (2004) ch 2 (or a lot of other places). These place emphasis on the importance of credit as emerging prior to money, Knapp (1924/1973) varies that slightly, seeing the state as playing an essential role. The debate continues with Melitz (1974), especially the introduction and chapter 'General theory'. And the store of value function is emphasized by the treatment of Wallace (1980), and criticised by Tobin (1980). Ostroy and Starr (1990) has been widely read and may be worth a look for that reason alone, although parts of it become heavy going, one might think. Goodhart (1998) and Flandreau and Jobst (2009) are somewhat broader discussions which relate to these debates.

Essay questions:

Is anything essential to the emergence of money?
What has modern theory added to the analysis of Menger 1892?

Discussion questions

How distinct are the state and credit theories of money?
Why is money sometimes called a 'medium of exchange' and sometimes 'a means of payment'?
Did the creation of the euro suggest fundamental questions about the nature of money?
Does it matter with what role money first emerged?

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