04 The Story of Money (Part One)

In this week's and next week's talks I'm going to be asking three questions.

"How did money come into being?" "What has been Buddhism's relationship with money?". And "Is money a good or a bad thing?"

This week I am concentrating on the first question "How did money come into being?". Next week I will focus on the second and third questions.

In exploring the answers to these questions I hope to bring out issues for us to ponder that bear closely on our lives as dharma practitioners: the importance of gratitude and of trust; the use of power; and how we value things.

How did money come into being?

What is money and where does it come from?

Felix Martin in his book "Money: The Unauthorised Biography" recounts the commonly told story about the origins of money and it goes like this.

In primitive times there was no money. There was just barter.

So, if someone needed something that they didn't produce themselves they had to find someone else who did have what they wanted, and, crucially, who was willing to swap what they had for what the first person produced.

So, if the local sheep farmer wanted fish, they would have to find a fisher willing to swap fish for sheep.

This system of barter was awkward and inefficient.

You had to find someone who had exactly what you wanted, and who in turn wanted exactly what you had got, and moreover, both at exactly the same time.

So, the story goes, the idea emerged of choosing one thing to serve as a 'medium of exchange'.

This thing could in principle be anything, so long as, by general agreement, it was universally acceptable as payment.

In practice gold and silver have been the most common choices for the medium of exchange, because they are durable, malleable, portable and rare.

So, the local sheep farmer could sell some sheep to whomever and receive in return coins made of gold or silver which they could then use to buy fish. The fisher could then buy what they wanted using the coins.

Once agreement existed on what this thing was, the medium of exchange, it became desirable not only for its own sake but also because it could be used to buy other things, and, also, because it could be used to store up wealth for the future.

As Martin puts it, “This thing, in short, was money – and this is where money came from.”

It’s a simple and powerful story, but as Felix Martin emphasises, however simple and intuitive the story may be, it is most likely false.

If this story is wrong, then how did money arise? Anthropologists tell a different story that throws a much more interesting light on human society and relationships.

Let’s imagine you and I lived in the past in a small village where people see each other on a daily basis, and exist in a long-term relationship with each other.

I am aware that you need wheat, which I have. Maybe out of a simple act of generosity I decide to give you the wheat. More likely, I will give you the wheat with the understanding that when in the future I need something else, say, ham, then you will return the favour. In a sense I have given you credit, and you have a debt to me.

Most probably the arrangement between us is just kept in our heads. You are grateful to me for the wheat. And I trust you to repay the debt at some point with something appropriate.

In financial terms we talk about debt and indebtedness and credit. But generosity, gratitude and trust are key elements in the transaction.

As life gets more complicated in the village, then debt and credit still remain the basis for trade between people.

Imagine there's a local village pub. When I buy beer what I've bought is entered on a tab, a record of what I have bought over a period of time. As the saying goes in English, I 'run up a tab'.

And then at some point I will settle the tab, or the debt. Maybe I will settle the debt with wheat or with chickens or something else acceptable to the pub landlord.

As the anthropologist David Graeber describes in his book "Debt: The First Five Thousand Years" there would be numerous such "tabs" for all kinds of goods and services all across the village.

Now we can imagine another step up in complexity, such as existed in Mesopotamia in roughly 3500 BCE. We know a great deal about the Sumerian economy in Mesopotamia because of the preservation of ancient writing on stone tablets that were essentially financial records.

The Sumerian economy was dominated by temple and palace complexes, staffed by thousands of priests and officials, craftspeople who worked in their industrial workshops, and farmers and shepherds who worked their considerable estates.

Records show that adminstrators developed a single, uniform system of accountancy, a commonly agreed standard for putting a value on different things. This was the silver shekel.

So Graeber argues, this particular form of money was not the result of commercial transactions or barter. It was created by temple bureaucrats in order to keep track of resources and move things back and forth between departments.

Temple bureaucrats used the system to calculate debts, rents, fees, loans, in silver.

Moreover, although the silver was „money" it did not circulate very much.

Indeed most of the silver just sat around in the temple and palace treasuries, carefully guarded for literally thousands of years.

So, why was the silver not divided up into coins of fixed value and circulated?

One reason was that whilst debts were calculated in silver *equivalents* they did not have to be paid in silver.

In fact debts could be paid in more or less anything one had around.

Peasants who owed money to the temple or palace usually settled their debts in barley, but it was perfectly acceptable to pay with goats, or furniture, or precious stones like lapis lazuli. As Graeber comments, temples and palaces were huge industrial complexes and they could find a use for almost anything.

Looking at this example from Mesopotamia we can see that money is a yardstick for measuring debt.

In a village or a small town if everyone were in agreement on using a common yardstick to measure the value of different things, then we could imagine how another aspect of money could develop.

Elaborating on an example given by David Graeber here's how that other aspect of money could develop.

Imagine that Joshua were to give his shoes to Henry, and, rather than Henry owing him a favour, Henry makes a written promise to give him something of equivalent value at a later date. Let's say they agree to an equivalent value of 30 shillings (the locally agreed yardstick).

Henry gives Joshua a written IOU for 30 shillings.

Joshua could wait for Henry to have something useful, and then ask Henry to pay his debt, to redeem his IOU. In that case Henry would rip up the IOU and the story would be over.

But what if Joshua owes Sheila the equivalent of 30 shillings for something else. Joshua persuades Sheila to accept the IOU from Henry as payment for his debt. He signs the IOU on to her.

And the story could go on. Sheila could now acquire a pair of shoes from Edith, and to pay for the shoes she can just hand Edith the IOU from Henry, and assure her that Henry is good for it.

In principle the IOU could continue circulating around the town for years, so long as people had trust in Henry's ability to pay the equivalent of thirty shillings.

Money is born.

I think we are now in a position to see that money is a kind of social technology with three fundamental elements.

The first is an abstract unit of value in which money is denominated: like the shekel or the shilling or the pound, or the euro.

The second is a system of accounts, which keeps track of the individuals' or the institutions' credit or debt balances as they engage in trade with one another.

The third is the possibility that the original creditor in a relationship can transfer their debtor's obligation to a third party in settlement of some unrelated debt. So, in our example above, Joshua passes Henry's IOU on to Sheila to repay a debt.

This third element is vital. It is the possibility of the transfer of the debt that makes the difference. An IOU which remains for ever a contract between just two parties is nothing more than a loan. It is credit, but it is not money.

It is when that IOU can be passed on to a third party that credit comes to life and starts to serve as money. Money, in other words, is not just credit – but ***transferable*** credit.

It's not enough for Joshua to believe that Henry will be able to pay the equivalent of 30 shillings to settle his debt. Everyone else involved in the transactions must be convinced that Henry can pay his debt.

In modern large scale societies it is usually only money issued by governments, or by the banks which governments endorse and guarantee, that can meet this third critical element of transferability. They have the power to issue money.

Let's explore the issue of power and money.

So far I have emphasised the role of trust in the development of money as a form of transferable paper IOU. But what about the use of coins and the development of money? Here we find that the important element is power, even war.

David Graeber, anthropologist and author of "Debt: The First Five Thousand Years", explains how periods of extended warfare made necessary a reliance on the portability of precious metals, and created the conditions for the emergence of, and widespread use of, coins.

In particular the transition to a fully circulating coin-based form of money came as the result of empires seeking to feed and supply increasingly professional or mercenary armies.

Faced with the logistical difficulties of coordinating the vast amount of resources necessary for supplying an army moving across considerable distances, the imperial rulers devised an ingenious shortcut.

They would pay their soldiers in their own specially minted coins and then demand that their new, conquered subjects pay tribute or taxes with those same coins.

The only way the new subjects of an empire could obtain these coins, with which to pay their taxes, was by selling things to the empire's soldiers.

As a result, according to Graeber, while credit or IOU systems tend to dominate and work very well in periods of relative social peace, or across networks of trust (whether created by states or by institutions like merchant guilds or communities of faith), in periods characterized by widespread war and plunder, they tend to be replaced by precious metal and coins.

Graeber argues that the situation in which credit is the foundation of economic life, and money little more than a way of keeping track of it all, persisted for much of early human history, from about 3500 BC to about 800 BC. The basis was laid for a credit form of money.

Then came the 'Axial Age' in which coins began to circulate in the way with which we are familiar today.

The axial age was the name given by Karl Jaspers to the period when the great religions of the world appeared on the scene. For Jaspers this period ran roughly from 800 or 900 BCE to 200 BCE. Graeber's notion of the Axial Age has a more extended run from 800 BCE to 600 CE.

For Graeber the axial age is defined by three linked developments: the turn to metallic money instead of credit money; the emergence of the great philosophical tendencies and religions, from Zoroastrianism, Buddhism and Confucianism to Hinduism and the major monotheisms; and alongside the emergence of these in China, India, the Near East and the Mediterranean, arose the deployment of professional armies by the state.

What explains the co-arising of coins, philosophical and religious forms of wisdom, and war?

We have already seen how coins and war arose together. With the rise of coin based money relationships became much more instrumental and commercial.

Moreover, Graeber argues, the increased commercialisation of life also bred indebtedness and the sale of people into slavery. If a person could not pay their debts then they or members of their family could be forced to become slaves.

In Asia Minor (where Alexander's army 'required half a ton of silver a day just for wages'), in Bronze Age India and contemporaneously in China, Graeber describes much the same brutal coming together of coinage, slavery, and the state.

As for the third element of the Axial Age, the religious and philosophical schools, Graeber's view is that the new thinking was essentially a reaction to 'impersonal markets, born of war, in which it was possible to treat even neighbours as if they were strangers'.

Graeber contrasts his axial age with what he describes as the long middle ages, beginning in India between 400 and 600 CE.

According to Graeber the long middle ages ended 'the military-coinage-slavery complex' of the Axial Age, and mended some of the rift between economy and morality, with economic life falling increasingly under the regulation of religious authorities. This was accompanied by a generalised movement to control, or even forbid, predatory lending, alongside a return, across Eurasia, to various forms of credit money.

How does Buddhism fit in with all of this?

That’s what I will be talking about next week.