Chapter 3

The Moral Content of Monetary History

ABSTRACT

The previous chapters are carried forth with a greater emphasis on money and the real economy with the financial bridge between these systems. The argument of the gold-backed monetary system is explained from both the historical and contemporary viewpoints. The phenomenological model of unity of knowledge is applied to the case of monetary and real economy systems with the financial connection. The open economy case of trade in the absence of interest rate is examined. The analytical method of circular causation in this regard is pointed out as a functional approach that is taken up profusely throughout this work.

INTRODUCTION

The evolution of money and along with it the understanding, functioning and policing of monetary aggregates in the real economy form a variegated history. Money and market exchange of goods and services took up certain distinct forms. There was the regime of barter or counter-trade between fungibles either on the spot, or as promissory future transactions. The critical issue is to examine the ethical and economic consequences of exchanging money for money.

BARTER (COUNTERTRADE)

The history of barter is a long one (Davies, 2002). It was always possible for markets to be flooded by diversity of goods in exchange. Yet such goods were mostly of the nature of basic needs that were acquired in the pure state of nature. The returns...
to factors of production, and thereby the price of goods and services, had to be in terms of the agreed upon quantities of goods in exchange. A slave worked for his master in acquiring food and livelihood as a primitive farmer. The master acquired in exchange land and animals as his wealth and social status. International trade too was based on diversity of tradable goods that gave trading partners their individual privileged and geo-political status in terms of power and wealth.

On the disutility of barter as medium of exchange for goods and services in a primitive moneyless world Davies writes (op cit, p. 10): “…. about barter in those long, dark, moneyless ages of prehistory, and thus we tend to derive our knowledge of barter from the remaining shrinking moneyless communities of more modern times.” Such shrinking communities in the moneyless, barter worlds of exchange came about by the petrifying effects of disappearing innovation, enterprises and incentive, diversity and possibilities, as the natural consequences of the limited need for goods in exchange. There was also high cost associated with storages and trade in bulky goods. On the other hand, services could not be stored. Along with this limitation, there came about the sterility in human resource development, institutional development, and backwardness of technology. The ever-advancing meaning of organization, creativity and enterprise that arise from learning processes could not be conceptualized, for there was no exchange commodity value for learning as a process of exchanging knowledge. On this problem of barter writes Davies (op cit, p. 17): “Services by their nature cannot be stored, so that bartering for future services, necessarily involving an agreement to pay specific commodities or other specific services in exchange, weakens even the supposed normal superiority of current barter, namely its ability to enable direct and exactly measurable comparisons to be made between the items being exchanged.”

**PRESENT DAYS’ SEMBLANCES OF BARTER**

In some sense the idea of barter remains until today in the context of factor price equalization. The theorem on factor price equalization states (Samuelson, 1949): If there was free trade in goods and services between countries, free technology transfer and no transaction costs (transportation as example) in perfectly competitive world markets for goods and services, then the relative factor prices between the trading countries will equalize completely. So also the relative prices of the goods and services will equalize. Production paths will change from a state of autarky to trade, and finally into autarky again after equilibrium between two countries erodes competitive advantage.

A simple problem will prove that the world is still in some sense in the grips of barter or deeply in the problems of inequality of value and distribution of due
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