The Nature of Currency is "Credit"

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Abstract. It has long been a debate about the nature of currency without a consistent conclusion. From the aspects of the generation, purpose, and form transformation of currency, this article discusses that currency's basic function is "exchange medium", and points out that "credit" is the nature of currency.

Introduction

What is currency? This has always been a problem to us. For a long time, although there are plenty studies for the essence of currency, there is not a consistent answer. Samuelson cited a famous saying of King Hubert's: "only one in ten thousand people knows inflation problem, and we have it every day" in Economics about currency.

Most economists define currency based on its capabilities or functions. As early as in ancient Greece, Aristotle summed up three functions of currency: value scale, distribution and storage. Marshall, in his Currency, Credit and Commercial argued: "Currency's main functions are divided into 2 kinds. Currency first is the exchange medium of buying and selling on the spot. The second function is is to act as a value standard or deferred payment standard, which is used to show the number of general purchasing power." Kindleberger argued currency has four kind of function values: payment method, account unit, medium of exchange, and storage and so on. Mishkin believed that currency has three functions: medium of exchange, calculating unit and value store. George kaufman argued currency with three functions: exchange medium, value standard, and storage value. Stiglitz argued that currency's functions are exchange medium, storage value, and calculating unit. We can put the above mentioned "values", "calculating unit", " account unit " and so on as value scale, and regard "exchange medium", "circulation method" as the same content, then various discussions about the function of currency are not against each other in essence but with scarifications and focuses.

Some economists give definitions according to the functions of currency. They think that currency is what has been generally accepted in commodity exchange, payment service or debt repayment, including money, coins, checks, and a series of things. British economist, Pesek and Savin differentiate monetary and non monetary according to the standard of the so-called net wealth assets. In their opinion, currency must be some means of payment, which is the wealth of its holders, but not the fortune of others, so currency is a part of the social net wealth. British economist Newlyn and Bootle pointed out that the basic function of currency is means of payment as it is widely accepted, so any things play the role of general medium of exchange are currency in their book Currency Theory. M.Friedman and A.J.Schwartz believed that currency is a temporary habitat of purchasing power. They determined the category of currency on the basis of empirical research. John, muller believed that money is the medium of exchange. Marshall also argued that: "they first refers to the medium of exchange, these media can flow freely among strangers to each other, and so transfer a certain amount of control right of the general purchasing power on its surface. ......so, it includes every means in purchasing goods and services and business pay no matter when and where, and is not affected by doubt or inquiry of passage." Menger discussed currency as: "the biggest local sales force at the time and place, which is most accepted by ordinary people in the exchange, and can exchange with any other commodity.... until at last it is named currency." Sales force can be understood as exchange capacity. The goods with the biggest sales force is the medium of exchange, thus it can be considered that Menger holds the theory of currency's "medium of exchange". Keynes thought money is a symbol used for debt payment and goods exchange, so it needs not metal entity, or intrinsic value. This symbol relationship is a derived from "calculate currency". So-called calculate currency is a currency of concept, which is a computing unit. The calculating unit is denoted by symbol or title, such as pound, dollar, etc. Stiglitz's monetary definition seems to be very clear: "currency is any widely accepted item in a society as a medium of exchange, a store of value and calculating unit."

Marx also used currency’s functions in its definition, "equivalent form is socially connected to the natural form of the special commodity together. This special commodity becomes currency commodity, or plays the special social function role of conducting monetary functions as universal equivalent in the commodity world, and thus has the exclusive rights in society." He thought money is the commodity with functions as a universal equivalent.

Debates on the nature of currency are of two different views in the history of western monetary theory: one is currency metal theory, the second is currency nominalism. Based on the currency value, storage method and the function of world currency, currency metal theorists think currency equals to precious metals. Currencies must have metal contents and essential value, and the value of currencies depend on the value of precious metals. Based on currency’s means of circulation, means of payment and other functions, currency nominalism theorists deny the real value of currency, and think that it is just a symbol, the existence of a nominal. Currency metal theory is the product of monetary gold and silver standard. With the collapse of gold standard in the early 20th century, its influence is increasingly weakened. At present in western monetary theory, currency nominalism is in the dominant position. Although different theories have their reasonable connotations, they have not captured the essence of currency scientifically, which leads to "currency fetishism" existing in the economic life for a long time.

I think, the nature of currency is "credit", and "exchange medium" is its basic function:

First of all, from the perspective of the origin of currency, it is generated as an "exchange medium". Menger (1892) thought that the assets which can be destined to become currency should have very good sell ability. Some traders may find some products have better sell ability than other products, so they are more willing to hold these goods for the convenience of exchange. Others are willing to accept these goods in trading, because although these goods are not directly used for their production, they have good sales, and becomes important in the exchange process. In this way, these assets will have better sell ability, and becomes a currency. Jones (1976) argued that even if the economy is in a state of exchange of one good for another at the beginning, eventually a medium of exchange will be developed, such as onions. People willing to exchange rare commodity find it difficult to find suitable counter parties directly, but if for an intermediary transaction, first exchange goods with onions, then swap onions for the goods they want. It will be easier. Once the people on the market began to do deal with onions, it may increase the number of people looking for onions in the market, and inspire more people who are willing to trade onions. This process continued, and the result is that onion is involved in most of the trading process, and becomes the medium of exchange or monetary tools.

In the process, appropriate candidate assets must satisfy some traits, such as stable value, easy to transport, easy to identify, durable, detachable, easy to save, and may sell at any time, etc. Those assets with good sell ability, reversibility, detachable and predictability may turn into currency.

Essentially, currency is a pure interpretation of consumer sovereignty: any recognized goods with all the characteristics of currency become currencies. In the process, a social practice needs to be established, although it is not easy. Scitovsky (1969) gave several ways to establish the practice:

The first way is that all members of a group formally make the commitment that they will accept a certain thing as a medium of exchange, such as euro. The second way is that official imposed currency is used as a means of payment. This is the basis of Legal tender. It is ruled by all the courts in every country that currencies in their country must be accepted in repaying debts. The third way is an important member of a group unilaterally accepts some form of monetary payments. If the person's influence is large enough, and the use of money is easy enough, others in the group would be willing to follow suit. The use of currency reserves has two examples, one is that one country’s currency is used as other countries’ outside currency reserves; the other is to pay taxes with their domestic currency. The fourth way is that some goods with important role in consumption, and is especially suitable for exchange medium of commodities gradually became a currency. When this social practice forms, whether it plays a crucial role in the consumption or it will continue to be used in the consumption, it will continue to exist as a currency. The most typical example is gold, which is first and foremost a domestic currency that later becomes international currency.

Therefore, currency is generated as an "exchange medium", and regardless of how it is generated, its "exchange medium" function depends on what the user's recognition of it, namely, "credit".

Secondly, from the development course and trend of currency, its main function is “medium of exchange”. In the process of development, currency appeared the following forms, and their main functions are all "medium of exchange”:

Shell

In the era of barter, people use barter way to exchange for what they need, but sometimes are restricted by kinds of goods, and they have to find a thing to exchange which both parties can accept. This item is the original currency. Shell, feathers, stone, etc. have all been used as money.

Metal currency

After a long time of natural selection, in the vast majority of society, the objects used as currency are gradually replaced by metal. Scarcity of gold, silver and copper hard smelting gradually becomes the main currency. Iron currency was used in some countries and regions, and our country’s earliest currency is bronze metal shell in Shang Dynasty.

Gold and silver

Western countries’ standard currencies are gold and silver coins, and fractional currency is made of copper and copper alloy. With the development of economy, commodity trading gradually increased. From the beginning of the 16th century, a lot of gold and silver from the Americas flew into Europe through Spain, and created conditions for the development of capitalism in Europe.

Bill

The earliest paper money is the receipt of gold/silver custody customers put in the bank (goldsmith/money shop). Due to the very inconvenience to carry large amounts of gold and silver currency, we started trading with receipt, then exchange the receipt for the corresponding golds. This period of "money" (paper) is gold and silver standard completely. That is because a certain amount of money in the bank is corresponding to a fixed value of gold and silver. Such as silver certificate issued by the wealth ministry of America, each dollar’s silver certificate can directly convert $1 silver dollar equivalent. But notes’ distribution rights in western countries almost belong to private banks, which often causes that paper money circulation is greater than the metal currency reserves in the bank. Western bankers have long relied on the rights of distribution of monetary in controlling over national economy and seek exorbitant profits. But the issue of paper money is subject to restrictions and checks and balances of real gold and silver currency in order to better control the issue of paper money, and control exchange rate of the bill. Metallic silver was gradually squeezed out of the currency system by bankers (1967), and a single gold standard is formed. In 1919, John Maynard Keynes discovered the secrets of "cheap money" : gold standard firmly curb the spread of the inflation (as the support of a bill, gold reserves restricts the circulation of paper money to a certain extent), and after the abolition of the gold standard, the only support of bill, the issue of paper money subjects to no restrictions. Therefore, gold standard is declared end in the United States in 1933. Gold is unhooked with dollar, and dollar becomes the first randomly issued notes completely controlled by international bankers, and theoretically is not subject to any restrictions. Due to the loss of gold as a supporting point, dollar's international prices were very unstable for a time. To stabilize the dollar price, international bankers picked oil as a new strong point essential to any country, so dollar is "oil standard".

Electronic currency

Electronic Money refers to exchange and get data denoting the same amount of money with a certain amount of cash or deposit cash from the issuer, and transfer it to the object directly by using some electronic methods, so that they can pay off debt. The types of electronic currencies are stored-value cards, credit cards and electronic checks, electronic money, bank cards, and electronic purse, etc.

The difference between the electronic currency and paper currency is:

(1) Generally, paper money is monopoly issued by central bank or specific financial institutions, central banks assume its issue cost and enjoy the profits. And electronic currency issuer has both central banks and general financial institutions, and non-financial institutions, and the latter are more.

(2) Bill is legal tender guaranteed by central banks and national prestige, and electronic money is mostly designed and developed by different organizations with different characteristics.

(3) The use of paper money is of strict regional restrictions, while electronic money breaks the regional restrictions, as long as the merchants are willing to accept, consumers can easy access to and use international currency.

From the above forms of currencies, currency is a common feature of "can" and "often" as a medium of exchange. And, from the perspective of the change of currency, currency evolved from entity gradually into virtual symbol. From the perspective of the social necessary labor time of currency production, the value of money is smaller and smaller, the production cost and time of electronic currency are almost zero. So, currency itself does not have much value, just because it is as an "exchange medium", it is "given" a certain number of "use value", which may buy a certain quantity of commodity, and these given "use value" and "exchange medium" must get consumers' recognition, namely "credit".

Third, from the perspective the role of currency in the commodity production process, currency is mainly used to transfer, buy production factors to produce a product, and its role is still "medium of exchange.

According to Marx's enlarged reproduction theory and capital circulation theory, in the process of the cycle "monetary capital - production capital - capital goods - currency capital", monetary capital is transformed into "production capital" by purchasing production materials and labor, so as to produce the product. In the process, if prolong the process as "commodity capital - monetary capital - production capital", it can be seen that its main role is still as a medium of exchange. Namely commodities capital will translate into more capital, and it must be transformed into monetary capital first, then buy production capital (production), and finally produce more goods (commodity capital). And currency is able to transfer and buy factors of production. Its "use value" and the implementation of an "exchange medium" may also get consumers' recognition, namely "credit".

Therefore, it can be concluded that currency is introduced into economic system essentially as an "exchange medium", and its basic function is “exchange medium". At the same time, because it needs to assume the function of "exchange medium", so a currency is "given" a certain number of "use value" (although the "value" is different, even little (electronic money), to make it equal to a certain quantity of commodity. And the realization of monetary "exchange medium" function and the recognition of its given "use value" depend on the users "credit" on it, no matter the "credit" is derived from the established by usage or national mandatory.

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