From Review of the International Commission for the History of Salt vol 7 1999 [CIHS] - ISBN 3-85093-023-8

SALT and the EVOLUTION of MONEY -PART II

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Abstract

In Part I, Money was defined as follows:. . . .. ," the most helpful formulation is the one defined by Knapp, and accepted by Keynes. Knapp made it clear that most transferable goods could be used for barter and consequently used as a 'means of payment': however such 'means of payment' only became 'money' when chartered by a state authority and accepted by its administration for, and in lieu of tax."

This differs from Aristotle's concept. He thought that authoritative marks and stamps confirming correct weight and composition, converts a 'means of payment' into money, thus associating the intrinsic material usefulness with its purchasing power as money.

The 'State Theory' suggested by Knapp on the contrary, implies that the essential monetary qualities are independent of its intrinsic values, as long as it is suitable to physically carry the marks of the charter, promises and guarantees of a regime.

These two concepts have in common the standardization of form, weight, chemical composition and colour. This fact has obscured the understanding of money, and still hinders the appreciation of the genesis of money and its historical development.

In Part II, we describe the use of money as a means of measurement rather than a means of exchange based upon an authorities' charter and suggest some basic principles evolving from an understanding of the way value and bookkeeping have influenced how money is budgeted, but hardly on how it is spent, and how limiting liquidity has diverted our intentions.

SALT MONEY

Although salt [Sodium Chloride] as a means of exchange mostly in the form of dried cakes, was once not only one of the tokens of money representing value but clearly was initially chosen because of its intrinsic physiological and later preservative value. As populations grew It became difficult to handle as a means of exchange. Gold, coin, and later certified paper were designed to replace such means of exchange - minimize copying and also guarantee the "face" value including the declared and accepted chartering authority. For example Roman coins were arranged in value according to their weight and not by size or material, possibly reflecting the original value of the weight of cakes of salt, since they did not yet use paper money.

The ownership of money has been conceived to be of value because of its purchasing power, but this kind of value is only potential not intrinsic. The means of exchange originally conceived by Aristotle is no longer a simple token or commodity but has developed into a concept enabling measurement of value, and thus in the classic meaning, its availability cannot be limited. It has no tangible intrinsic value. Only after it is spent - does it represent the intrinsic value of the items or services purchased. Throughout history many kinds of token money were invented including cowry shells, salt, medals and gold - none of them with the exception of salt had serious intrinsic value. Today even gold it might be argued has little value relative to its real usefulness. Money today does not have intrinsic value nor does it need to represent its own face value. Book values, token values and other forms are only records of perceived value at the moment of registering the exchange. Such tangible forms are still transferable but they are difficult to appraise as the asset values they represent fluctuate over periods. .

Salt was and still is a commodity and its intrinsic value was governed by its sometimes very precarious availability and sources like any commodity – this together with its bulk handling awkwardness contributed to its variable availability. Even when very difficult to obtain salt was possibly available in extreme cases in return for the lives it saved. Human bondage, as the means of exchange was a slave and slavery. In such extreme circumstances slaves themselves were only a drastic exchange alternative, likened to money gold or Chinese Cowry shells or even beads, provided they satisfied the supplier that they represented the current value of the salt. In the nineteenth century a slave was a unit of account in Africa. It was the lack of availability [or monopolizing of salt] that increased its value and not the lack of money or slaves-

Figure 1 Minor Unit of Salt-bar Money [Pitt Rivers Museum has many fine examples of local currencies from, South Parks Road Oxford.] The Museums around the world—shell money, feather money, stone money, salt money

The physical availability of salt was mainly determined by the vagaries of climate, particularly coastal flooding of salt evaporation pans which allowed ruthless authoritarian regimes to periodically make the rules and control deliveries or impose increased Tax collection in times of famine to add to the burden. Often control of the few sources was enough.

Initially Copper, silver and Gold for example as a defined measure of their relative specific weights of salt or other valued commodities was useful, but greater values or quantities had to be measured by digital means and other forms such as tokens of recorded guarantees and promises. These promises and guarantees declared the "face" value measurement of money to pay for the availability of goods and services. In the course of time when these services were not readily available or they alternatively flooded the market then the means of exchange became inflated or deflated until it no longer had any logical "face" value. It is not the availability of money which defaces it but the availability of the goods and services it represents. An economy perceived to be weakening will cause defacing the means of exchange - inflation. Likewise a strengthening economy will result in defacing money to the point of deflation.

PRESENT ROLE OF the BANKS

In the most recent crisis Banks were adding to, and manipulating the measured selling values of recorded asset packages until they no longer represented the original asset value. Many of these assets caused false appraisals which did not reflect changes in the market. Hyperinflation and even worse, deflation had become critical signs of the health of an economy. On the other hand countries' regimes had also very successfully sold paper money and bonds to the rest of the world which it has accepted as a consensus of valuation at the time of issue. It is difficult to understand why this "printing" is called debt and not investment since any money or other means of exchange should represent collateral and therefore a speculative interest in the expected improved value of that collateral, and not the money invested.

Money can and is printed by authorities and banks as a recorded measure of exchange by any credible trading authority without limit, for the purpose of exchange. Logically this increase in the money supply should equal the increase in GDP. However the asset or work-in-progress as described by Aristotle and later by Keynes can be passed on and change ownership using this measure of exchange. These total assets are the collateral of any economy. They are what planet earth is conceived to be worth and almost impossible to measure in value. It might even be impossible to print enough money to represent earthly value. So one might argue, why is there a liquidity problem? Clearly the answer is not about money but about ownership.

Figure 2 ADVERTISEMENT for airline 2004

Unfortunately commercial BANKS have been treating money as if it was an asset with intrinsic value - Even worse banks have been inflating this measure by compounding commissions and interest. When central banks create high rates of interest this may be considered to be intrinsic value however the role of a commercial bank should only be to oversee investments and earn a profit from this service. Collecting capital and holding deposits are clearly two separate businesses.

INVESTMENT BANKS

The measured capital available to be employed for investments should be equal to the perceived value of an economy. This capital is only a tool to be employed by an economy and owned by an economy and which should never be owned by any investment bank. If a bank has to write down badly spent capital it must bear the marginal loss as a recorded perceived value reflecting its reputation and goodwill. However the principle still represents an economic value. An invested asset may be depreciated when eroded [or appreciated when revalued] depending upon the market's consensus of opinion as to the contribution the investment has made to the economy.

The assets valued from investments deemed unsuccessful remain the property owned by the provider of the capital. The investment bank should suffer only those losses connected with failed management and vetting. A failed investment would reflect upon the bank and on the credit rating of the borrowers. The principal of such an investment is simply badly spent money and should not inflate or deflate a bank's balance sheet. In the general scheme of investments in an economy failed investments will only inflate the currency rates reflecting inefficiency rather than a negative book keeping sum of money may representing an item, or service with a value as perceived by a market with the freedom of choice. That sum of money however has not been consummated as a recorded value until the exchange has been made, and only then has the item or asset been given a temporary measure of exchange in the form of a credit or debit. Such a credit or debit is not yet a commodity, but only a record of exchange. Unspent money has no value since no exchange has taken place. An amount of money held as a deposit may represent the perceived value of an item or service, however if that perceived value changes then any money offered as a means of exchange will be dependent upon the perceived value of this item of collateral held by those offering or printing the money or by mutual agreement. The measured value of any item of collateral is by a mutual trade agreement. The total value of an economy therefore is by mutual agreement and not by unilateral declaration. In the recent case of the Argentina economy for example, the rest of the world did not agree with the regime's valuation.

However much money is deposited or printed it cannot be less than the perceived value of the economy it represents. It would also be impossible to spend more money than the value of goods, services and work in progress that are available to that economy.

There only remains the political question as to who should spend it. It may also be argued that not spending it causes a relative reduction in the availability and the usefulness of available goods, services, and work in progress assuming they are needed.

COMMERCIAL BANKS

Measured capital owned by individuals or companies should be held by a commercial bank with or without the owner's permission to manage it. Since this is chartered money and it should be guaranteed to the owners for withdrawal at any moment in time.

Since the available collateral created or discovered on this planet is mostly owned by countries, then such countries ought to able to print or mint money according to the rest of the worlds perceived value of that country's economic worth. An individual may print money in the form of a cheque according to his or her credit worthiness. Similarly a group of countries eg the EUROZONE or the United States of America may have advantages in terms of size; however individual states or countries within the group would not be able to manipulate local fiscal conditions and as a result lose fiscal independence.

There cannot be a limiting ceiling to the value of this collateral (in the sense that is generally known as an "economy") so long as there is an objective consensus of opinion as to the perceived value monitored by the rest of the world. Credit grading bodies should therefore be far more influential in providing an indication of individual or group status in appraising the conceived value of any economic unit and its collateral.

In practice the rest of the world reacts to devaluation or revaluation of an economy by free choice in buying [or not buying] its goods and services indicated by the exchange rate of its currency or bonds.

ECONOMIC UNIT BUDGETS

When a political authority budgets for its spending policy, it makes plans based on estimates of future values and availability and on past values. Since money has no real intrinsic value, it may be preferable to rely more on spending data rather than budget from the money supply or liquidity data. A far more realistic and practicable method would be to fix a relative value of goods and services and rely much more on continuous monitoring as to what is being spent of the total budget value. In a digital age spending may be monitored precisely. Accumulated values of spending would indicate the effectiveness of the spending with relevant feedback. Unfortunately due to the historic impression that inflation is directly caused by increases in the money supply, spending has always been limited unnecessarily and the result has been the main cause of recession.

The present system of only spending money that has been collected as tax is becoming a farce since the only real indication of borrowing is the state of the economies' foreign currency reserves. If an economy has successfully sold its own currency or bonds in exchange for another economy's collateral then this should be considered as an investment and not a debt.

The state of an economy clearly depends on how well money is spent and reinvested and not on liquidity or the amount of money available – the more that is perceived as well spent, will increase the perceived value. Debt, which should preferably be described as investment, is a function of risk management and therefore is also an indicator of how well an economy is faring – however it must take second place in an economy's priorities. Ownership of Collateral may be exchanged with ownership of other forms of collateral – money is only the record and means of the exchange – simply a tool..

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