ON DEBATE: FIDUCIARY CURRENCY, VERSUS REPRESENTATIVE CURRENCY

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Abstract: The applied economics understands the concept of money nearly exclusively through the quantitative theory, which certainly remains one of the greatest theories in this topic area. On the other hand, the history of money – be it old or contemporary -- finds two other "non-quantitative" theories as more relevant in the respect that they are able to "cover" this history – these are representative and fiat money. Then, there comes the interesting point: this history "covered", meaning a full explaining of facts would be made by the two theories and images of the same money just "together"—which is impossible in basic good sense terms, as money (as anything else) cannot be real and fictitious value in the same time.

I already believe that my last intervention on the issue(Andrei 2011) skipps an important stake: vis-a-vis the quantitative theory of money, which of course remains one of the „largest" economic theories ever, findings of the literature on qualitative theories stay so low voices, whereas some of them are at least equally significant. When I say significant, I think about the money substance, as identified with: (1) a fiction of value given by the monetary authority, see the fiat money, versus (2) a natural valuable substance on market as basing the money value, see the representative money. Moreover, not only the significance of polemics between the two theories interestingly grows larger than the quantitative theory itself, but the last seems even „forced" to get included by the one[1] side. In such a context, things become scientifically serious and require a separate analysis for clearifying.

[1] Of the two, see the fiat money.

1. As for the fiduciary cuurency

Money is a social convention[1] and compulsoryly introduced by the monetary authority – be it State, government or even a Middle Ages seignor for her/his own fief(Reynolds 1994). This is the same for representative money, by the way.

1.1 A huge „white spot" in historical terms

The real problem of the fiat money's argument comes up since this theory so claims that a State authority – just figure out a pre-modern State, as for antiquity and/or Middle Ages – would be able to introduce both its proper sign of money and the price system of it, as aferrent to. In other words, prices of all goods on the home market would be settled ab initio by a skilled enough authority in such a way. The State or segnor feels pushed to such an undertaking since concomitantly it (or she/he) directly pays its (her/his) own emplyees for their services – as indirectly, these people then are assumed to find out their own real welfare as translated in marketable goods; households make savings under the same money sign and so on, nearly the same as today. Or, even much later modern economy States, basing of the tremendous experience of their historical predecessors, see themselves out of all capabilities to make it in a free economic environment[2]. All the less for pre-modern States, for which interventionism yet stayed so far from, as well as even the clear design of a home market as basing a unique and distinct macro-system[3].

1.2 On the contrary, some strenghts

On the other hand, the fiat money theory was well enough so far as basing on its strenghts and other specific aspects, here including (economic) history and history of economic thinking. As in the first place, this theory is in „good terms" with a late 19th century neoclassical view about the barter type economy, the one which made an impressive career under the respectable name of Sir William Stanley Jevons (Jevons 1875/1893), the way that all manuals of economics ever-since reduce the barter type economy to either its primitive stage, or to its handicaps, as compared to its money alternative, here expected to replace it forever. The author emphasises that (primitive, our notation) barter misses its specifically necessary „double coincidence of wants", as the most important. Besides, barter proves unable to make some seasonal goods approach one another for direct transactions and encounters the impossible physical divisibility of some marketable goods.

Later on, when primitive money issued by antique States, the fiat money theory better responds to an issue to which the opposite representative money theory fails to explain, in its turn, here proving its own historical white spot[4]. The fiat money might here underline that all authorities, be they antique or contemporary, take so seriously their money issued. Counterfeiting coins and currency has ever been seriously punished. Plus, the antiques had a similar problem of their money being sometimes rejected by citizens in context here including the Roman emperors' example of reshaping money with their portraits, as for political propaganda[5]. Fiat money better explains not only

[1] If not, even an experiment (ibidem).

[2] Whereas here including the maximal interventionism of the totalitarian economies does not worth any consideration, in our view.

[3] The nation-wide macro-system and home market are assumed to belong to the modern economy, as let us say, since the late 18th century or so.

[4] Contrary to fiat money, representative money more deeply considers its barter precedents, as containing not only the primitive, but equally the „upper barter" of mediums of exchange and commodity money. See O'Sullivan&Sheffrin (2003), Radford (2009/1945), Oconnor (2007).

[5] Here see the extreme example of the Roman emperor Caracalla, cited with an act condemning the whole population of Tracia for not accepting his money sign (Zarlenga 2000).

these minor and „mortel" politicaly based aspects, but more importantly the concept of segnorage. Or, the last might be the very aim of both re-shaping the basic metal quantity as flat coin and issuing paper money. And it was both politics and economic terms here. Segnorage(Weisbrot 2005; Horne 1915), as defined as the „segnor's right"[1], explains how the flat coins were shrinked as metal quantity despite the explicit value given by the State's inscription, meaning that there were not conterfeitors acting on, but the coins issuer herself. The same segnorage acts when paper money replaces metal coins and even becomes a value assessable and accountable concept. Though, its value increase keeps limited by the alternative of all money issued back to its issuer on short terms. Moreover, a high segnorage value reduces either the welfare provided by money received by all individuals or the money supply's capacity to extend over their (previously outlined) market area. Fiat money drags segnorage on its side, whether the last stays valid to all belongings of the money history[2]:

Then, for the later modern times fiat money selects the money conceptually meeting credit and banks (Davies 1994), and their practical result of money multiplier. It is in the same context that the fiat money theory calls for all (old and contemporary) adversaries of the gold standard concept on its side – see, between David Ricardo (Rist 1938)[3] and hundred years later J.M. Keynes and even later M. Friedman[4]. Plus, fiat money rejects the Triffin(1968)'s theory on the international monetary system (IMS), despite this author's position rather coping with the same fiat money. Otherwise, since gold standard overthroned – meaning all metal base for money cancelled, but money still in place -- fiat money feels „the best" – it looks like even if there had ever been a real „fight" between these theories of money, that would certainly show to the „winner", which was the same fiat money. Representative money, as in the „looser's position" might stay just a „theoretical illusion".

Last, but not least, the „final exam" passed by fiat money might also consist in more contemporary aspects. First, as for facts, the today international money seems to have succeded in remaking its order consisting in exchange rates floating tempered since the early eighties[5]. Second, the optimum currency area (OCA) theory, as between Robert Mundell (1961) and Ronald McKinnon (1993), successfully argues with the previous Triffin (1968)'s international monetary system (IMS) theory. Third, the post World War II banking system based on central, versus commercial banks (Patat 1991) and corresponding monetary policy play for fully re-designing the home money area in the fiat money way, as compared to the previous gold standard era. So, fourth, the quantitative theory gets on the fiat money side, as well basing the same monetary policy. Fifth, the EU's euro story keeps on the same side – as well as all presumably similar examples would do. And enumeration might here continue with other aspects[6].

[1] That term indicating its Middle Ages origin, despite that it belongs to antiquity first.

[2] From antiquity to modern times and from the metal shrinked antique coins and paper money to the today US $, as (paper again) issued by an individual State for the whole world market and economy.

[3] As cited by the author for having participated to a project of replacing the gold metal standard of money at his time by a so-called "general price index".

[4] Milton Freedman had previously been a student of John Maynard Keynes, then rejecting his master's thinking in general terms. Freedman has preferred the contemporary neoclassics' position on the economic principles, see the free initiative and especially the macro-system's self regulating capacity. He was the head of the "monetarist" school, liberal thinker by excellence, but as a "new" liberal he rejected the gold standard as much as his old master.

[5] See the "La Platza-Louvre" international agreement (1985), Corden (1994) and Wolf (1994).

[6] Let us here add the theoretical example of the exchange rate, as price of money. This last definition stays valid just under the fiat money theory, whereas under gold standard the metal parity base for the exchange rate would not be included in the price category. In reality, exchange rate as both price and money reference when the money value stays the monetary authority's fabrication remains a debatable idea on the fiat money side.

1.3 What fiat money fails to explain for today?

However, a couple of aspects stay shadowed by such a „success" of fiat money. The first belongs to the same gold metal, as rejected from all money (monetary) dimension by an international law[1], but filling the banks' and especially central banks' reserves as previously, under international gold standard and in need for an equally international „Gold Pool" as a matter „not to play with" (Andrei 2011).

The second aspect seems to skip the gold metal, but not its money functionning principle at the same: see the liquidity representation, here including the corresponding liquidity enlargement this way. Previously, under gold standard, the gold metal reserves were basic money (Mo) and money supply was effective money (M1), as representative. So, the representation type of reports between the two was going furhter on with all titles[2], as money denominated and the total liquidity so expanded not only through the money multiplier[3]. Today, long after gold standard and when gold is „non-monetary" for good, the liquidity representation was not affected in practical and legal terms; on the contrary, it flourished – except for the former basic gold metal representation[4].

As for a third aspect, the above mentioned OCA theory keeps the representativity type report between nominal anchor and the rest of currencies and the appropriate area, as internationally[5].

2. As for representative money

Money is admitted to be a social convention, as introduced by a political authority, as well. However, market is assumed to be much older than this authority the way the authority is basically assumed to play by the market's prior rules. Money so might be also supposed to previously be a matter of symbol, and not playing directly on market, whereas market is for a quite longer time working on its own.

2.1 Report between money and barter stays equally significant

So, money issued – as well as the issuer authority -- complies with the already existing market, and the last belonged to the barter system when the first money issue arrived and was assumed to do the same for a significant while afterwards. And when arguing about the barter's rules of the game, the sequence starts by the so-called „Turgot axiom" (Jinga 1981), which claims that all exchanges exclussively belong to really valuable matters" –, in other words, how could a social convention (see a „fictitious" value as fiat money is) be part of exchanges ?! As a response, money might be denied as such, but it can remain representative for a naturally valuable substance. On the contrary, barter, as for its whole evolving, complies with such a general rule, and here a different scenario than the above mentioned Jevons' view seems to come into force.

So, barter can be at least imagined for a long historical sequence of phases, broadly for a primitive barter[6], folowed by the advanced barter -- the one of mediums of exchange and commodity money. The rule of goods directly meeting each other for transactions and so settling value ratios between stays unchanged in this second

[1] See the IMF's new Status (Gold 1979).

[2] See value papers like: bonds, securities and credit titles.

[3] The qualitative difference between the specific results of money multiplier and liquidity representation is that the previous acts on effective money – see the highest degree of liquidity –, whereas the latter expands money and financial instruments on the expense of the liquidity degree so decreasing.

[4] Actually, this way the effective money tries to represent a plurality of assets, here and there including gold in banking area. Then, money and financial markets feel free to include a liquidity significantly expanded two, three (and so on) fold from a single (effective) money base.

[5] Meaning on regional scale and expressing the exchange rates, as direct ratios.

[6] All goods try to meat each other and so settle value (price) ratios between; the problem of missing the „double coincidence of wants" here locates and remains forever.

advanced historical phase, whereas the last throughs out both the „double coincidence of wants" problem and the primitive barter's attachement to the specific Neolitic type community (Andrei 2011). Then, the advanced barter clears the way for money, as issued on its aferrent market area and so shakens the Jevons' type „barter-money" incompatibility. But, moreover, the advanced barter gets fully opposite to its precedent by breaking the market areas' borders, whereas the primitive barter had stayed aferrent to small human communities[1] and so equally remains the single image of perfectly closed market space for the economic history.

2.2 Strenghts and weaknesses of the theory

Then, the representative money theory gets able to explain that there was not the money's „force" to make the previous cell markets extend to the national-international market structure of the modern economy of the 19th and 20th centuries, but this „force" belongs to barter, once more: (1) the contrediction between the two, see the (a) natural and (b) artificial utilities[2] results into (2) the artificial selection among mediums of exchanges, and so, concomitantly, (3) extending market areas as integrated by mediums of exchange selected. This is the way the gold standard historical „phenomenon" gets much better explained than in the fiat money case, as the ending selection among all mediums of exchange – it might be the end of barter, but there is no doubt of gold standard belonging to barter previously than founding its modern monetary system.

On the contrary, the non-modern money, as born of the advanced barter system (and not incompatible with), was not only unable to replace barter system, but rather a real brake of individual markets' extension. As for instance, re-multiplying mediums of exchange and so creating parallel price systems, as superposing on the same market areas, plus lower valuable mediums of exchange as chosen for basing the money issued[3]. Plus, the segnorage, as affecting the market extension once more.

Whereas through the fiat money theory money becomes modern throughout meeting banks, representative money underlines a different aspect: the one throughout extending markets to the national-international -- see the Ricardian and post-Ricardian -- structures and this belongs. But, basically, there was not exactly money, but still the barter system to talk about, and it results into the modern gold standard of the late 19th and early 20th centuries. The gold metal was the „winner" of the long artificial selection among mediums of exchange and extending-unifying market areas (Andrei 2011), but not only. It was previously barter[4], then monetary system, competed with the silver metal throughout the 18th and 19th centuries[5], its specific (and famous) price stability claims its origin in the barter system as well, plus the monetary order that it engendered on both national and international markets founded all monetary systems ever-since.

It was gold replacing, as really and finally, barter by money – as written in todays manuals – actually this was it changing its own status this way. This changement even goes to gold standard embracing some fiat money behaviour, as well – see money multiplier. However, the representative money theory stays strong on the international market area as much as fiat money, on the contrary, better explains phenomena and behaviours on the today home markets.

As contrary to this above description, the most significant weakness of representative money is – as contrary to a so coherent explanation about gold standard and its earlier history -- failing to explain the non-metal based money afterwards.

[1] See the "cell market" expression (Andrei 2011).
[2] Artrificially given, as related to helping market exchanges among the other marketable goods.
[3] See examples in the antique Greece and Northern European countries (Finley1985/1999).
[4] The up-final phase of barter.
[5] See also bimetallism, as a significant moment of such a process (Andrei 2011).

3. The other part of debate

As given all of the above, can we ask who's right and who's wrong in this argument ? Something like money here cannot be both a real value and its opposite in the same time. Broadly speeking, the same money dilemma reiterates in this early 21st century, instead of seeing itself settled for good since the early thirties: is the subjective authority really better than the primitive and „naturist" metal in managing money supply, as always crucial for economy and the human civilization[1]?

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