

Money

CONOR McCABE



Money

An Activist's Guide

Week One

The Spark, Phibsboro

“You
cannot
compress a course
of
political economy
into one hour.

But we shall
do our best.”

*Karl Marx to Frederick Engels
20 May 1865*

Money

CONOR McCABE

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The Queen asks why no one saw the credit crunch coming

The Queen, whose personal fortune is estimated to have fallen £25 million in the credit crunch, has demanded to know why no one saw the financial crisis coming.



The Queen and the Duke of Edinburgh at the opening of a new building at the London School of Economics Photo: PA

By Andrew Pierce
4:40PM GMT 05 Nov 2008

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In The Royal Family



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The Global Financial Crisis – Why Didn't Anybody Notice?

British Academy Forum

On 17 June 2009, a group of leading academics, economics journalists, politicians, past and present civil servants, and other practitioners met at the British Academy for a round-table discussion of the current financial crisis. Professor Charles Goodhart CBE FBA opened the discussion.

The question under discussion in this second British Academy Forum had been framed by Her Majesty The Queen on a visit to the London School of Economics on 5 November 2008, when she had asked: if these things were so large, how come everyone missed them? The Chairman, Professor Peter Hennessy FBA, explained that a purpose of the Forum was to provide the basis of an 'unofficial command paper' that attempted to answer The Queen's question.



The Queen with Professor Luis Garicano at the LSE in November 2008 (Photograph: Kirsty Wigglesworth/PA Archive/Press Association)



The British Academy Forum on 17 June 2009.

So in summary, Your Majesty, the failure to foresee the timing, extent and severity of the crisis and to head it off, while it had many causes, was principally a failure of the collective imagination of many bright people, both in this country and internationally, to understand the risks to the system as a whole.

*We have the honour to remain, Madam,
Your Majesty's most humble and obedient
servants*

Professor Tim Besley, FBA

Professor Peter Hennessy, FBA

Henry A. Waxman to Alan Greenspan, Congressional hearings, 23 October 2008



'Do you feel that your ideology pushed you to make decisions that you wish you had not made?'

Henry A. Waxman to Alan Greenspan, Congressional hearings, 23 October 2008



'Do you feel that your ideology pushed you to make decisions that you wish you had not made?'



'Yes, I've found a flaw. I don't know how significant or permanent it is. But I have been very distressed by that fact.'

Henry A. Waxman to Alan Greenspan, Congressional hearings, 23 October 2008



'Do you feel that your ideology pushed you to make decisions that you wish you had not made?'



'Yes, I've found a flaw. I don't know how significant or permanent it is. But I have been very distressed by that fact.'



'I made a mistake in presuming that the self-interests of organisations, specifically banks and others, were such that they were best capable of protecting their own shareholders and their equity in the firms.'

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The unfortunate uselessness of most 'state of the art' academic monetary economics

March 3, 2009 1:37 pm

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The Monetary Policy Committee of the Bank of England I was privileged to be a 'founder' external member of during the years 1997-2000 contained, like its successor vintages of external and executive members, quite a strong representation of academic economists and other professional economists with serious technical training and backgrounds. This turned out to be a severe handicap when the central bank had to switch gears and change from being an inflation-targeting central bank under conditions of orderly financial markets to a financial stability-oriented central bank under conditions of widespread market illiquidity and funding illiquidity. Indeed, the typical graduate macroeconomics and monetary economics training received at Anglo-American universities during the past 30 years or so, may have set back by decades serious investigations of aggregate economic behaviour and economic policy-relevant understanding. It was a privately and socially costly waste of time and other resources.

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Maverecon: Willem Buiter

Willem Buiter's blog ran until December 2009. This blog is no longer active but it remains open as an archive.

Professor of European Political Economy, London School of Economics and Political Science; former chief economist of the EBRD, former external member of the MPC; adviser to international organisations, governments, central banks and private financial institutions.


[Willem Buiter's website](#)

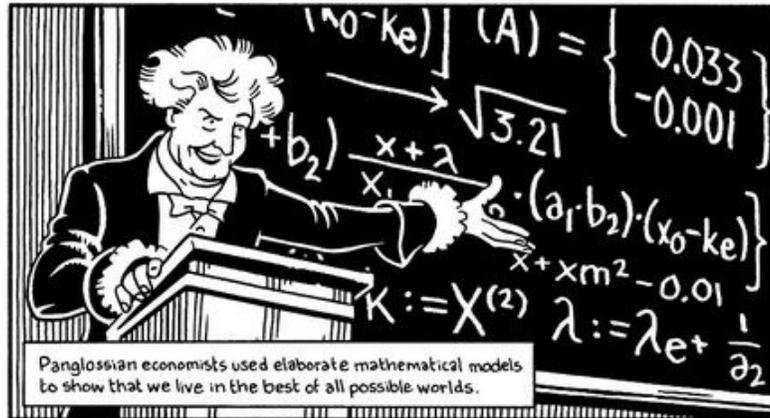
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How Did Economists Get It So Wrong?

Published on Monday, November 22, 2010



"The economics profession went astray because economists, as a group, mistook beauty, clad in impressive-looking mathematics, for truth."

The economics profession went astray because economists, as a group, mistook beauty, clad in impressive-looking mathematics, for truth. In Paul Krugman's September 2, 2009 New York Times article "How Did Economists Get It So Wrong?" he cites the central cause of the profession's failure as the desire for an all-encompassing, intellectually elegant approach that also gave economists a chance to show off their mathematical prowess. Unfortunately, this romanticized and sanitized vision of the economy led most economists to ignore all the things that can go wrong.

<http://www.economicpolicyresearch.org/index.php/the-future-of-economics/214-how-did-economists-get-it-so-wrong--sp-1059441441>

Systemic Risk

Ideology

Analysis







To CAPITALISM



THE CAUSE OF-AND SOLUTION TO-ALL OF LIFE'S PROBLEMS





THE #1 IRISH TIMES BESTSELLER

"A clear-eyed, myth-dispelling masterpiece" Marian Keyes
"Sweeping, authoritative and profoundly intelligent" Colm Tóibín
"Evocative, moving, funny and furious" Sunday Times

FINTAN O'TOOLE
We Don't Know Ourselves
A Personal History of Ireland Since 1958



NEW YORK TIMES BESTSELLER

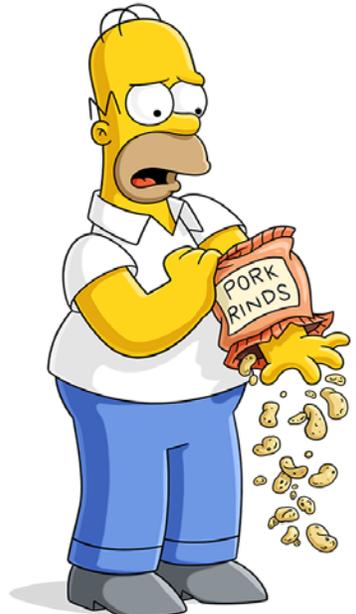
PAUL KRUGMAN
WINNER OF THE NOBEL PRIZE IN ECONOMICS

END THIS DEPRESSION NOW!



WITH A NEW PREFACE









**TALK TO THE
EXPERTS**





TALK TO THE EXPERTS





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MARKET PLACE OF IDEAS



OF COURSE I'M AN EXPERT IN ECONOMICS

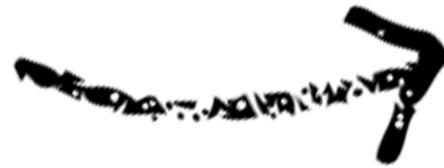
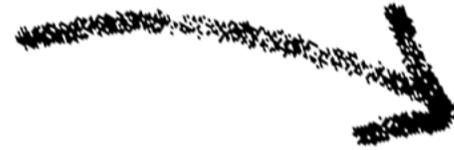
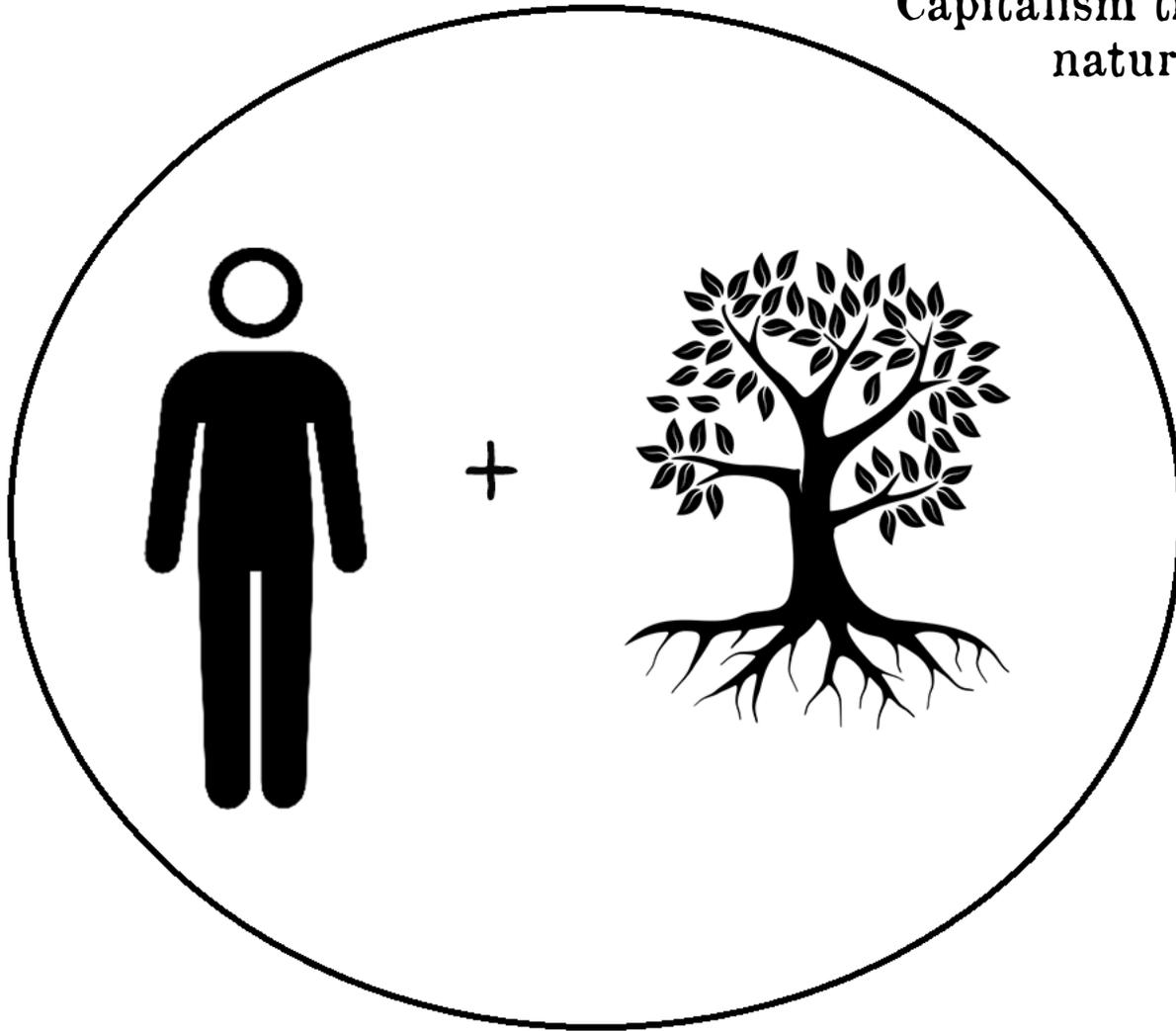


SURE HAVEN'T I GOT ME ARMS FOLDED?

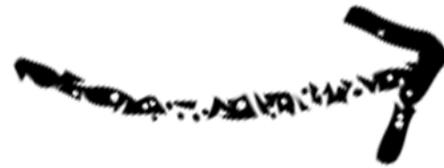
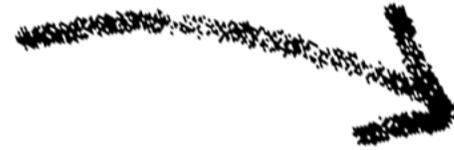
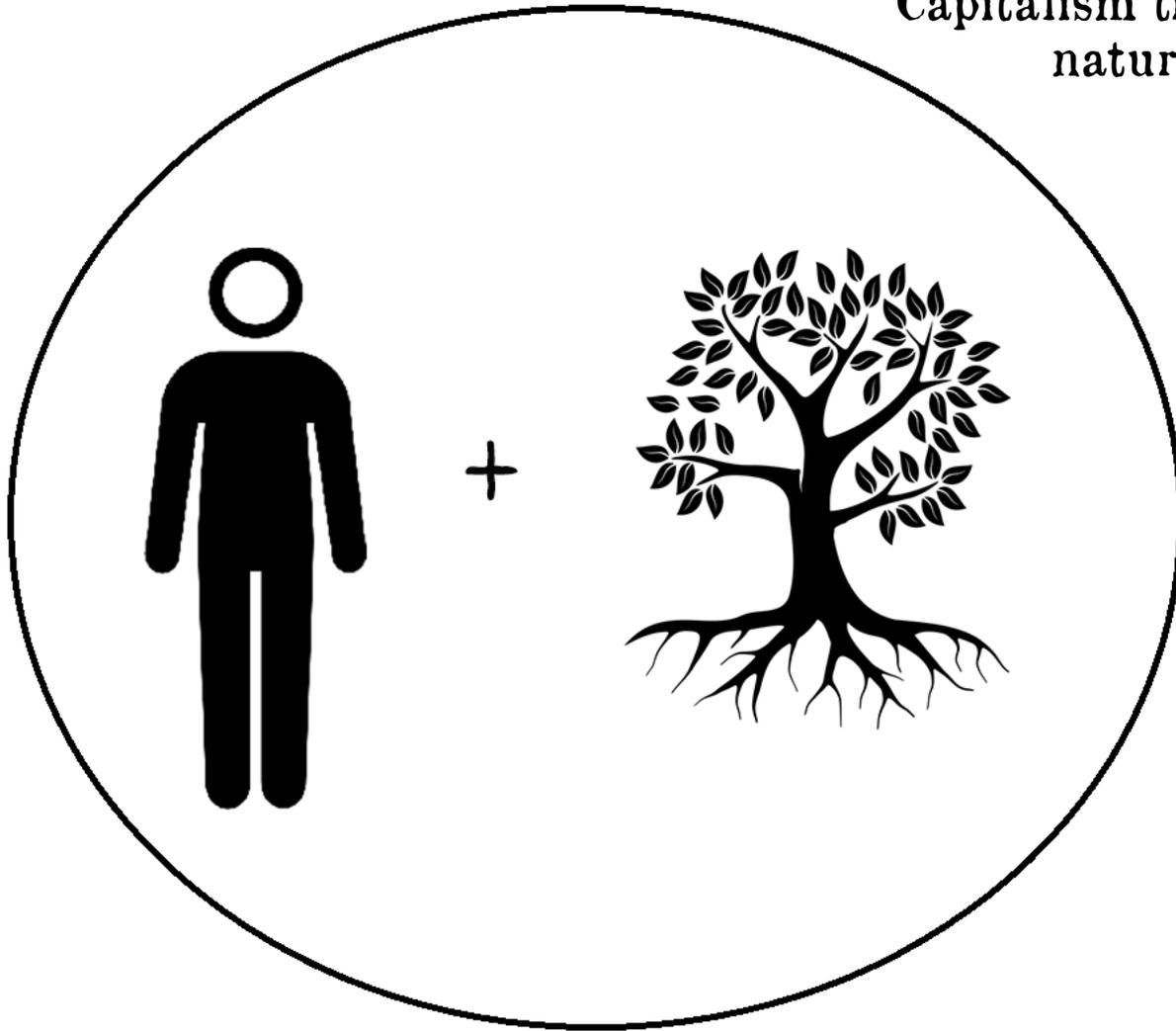




Capitalism transforms human labour and nature into the money form



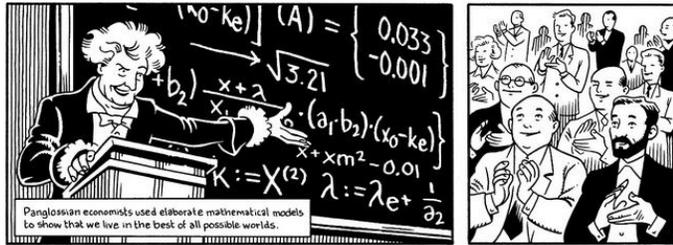
Capitalism transforms human labour and nature into the money form



through violence
and coercion

How Did Economists Get It So Wrong?

Published on Monday, November 22, 2010



The economics profession went astray because economists, as a group, mistook beauty, clad in impressive-looking mathematics, for truth. In Paul Krugman's September 2, 2009 New York Times article "[How Did Economists Get It So Wrong?](#)" he cites the central cause of the profession's failure as the desire for an all-encompassing, intellectually elegant approach that also gave economists a chance to show off their mathematical prowess. Unfortunately, this romanticized and sanitized vision of the economy led most economists to ignore all the things that can go wrong.

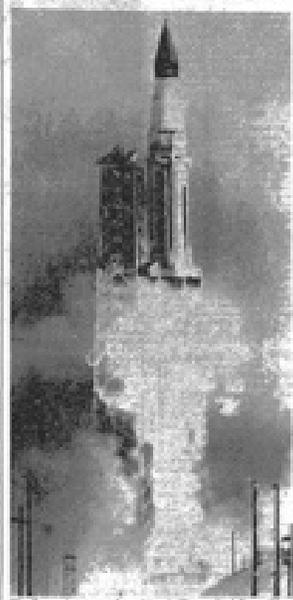
<http://www.economicpolicyresearch.org/index.php/the-future-of-economics/214-how-did-economists-get-it-so-wrong--sp-1059441441>

"The economics profession went astray because economists, as a group, mistook beauty, clad in impressive-looking mathematics, for truth."



NATO FORCE TO BE SENT TO CYPRUS
 Turkish troops will be included

LONDON (AP)—It was reported today that a NATO military unit will be sent to Cyprus to protect life and property there. Mr. Ernest Bevin, British Foreign Secretary, said after a Cabinet meeting in London yesterday that Turkish troops would be included in the NATO peacekeeping force.



The tower in London, which is a landmark of the city.

CORK AND KILDARE WRITS ISSUED
 Trial begins new session

A writ of habeas corpus was issued today for the release of a man who had been detained in the county of Cork. The writ was granted by the High Court.

AMBASSADOR TO INDIA APPOINTED

A new ambassador to India has been appointed by the Government. The appointment is a significant move in the country's foreign relations.

Report on Co-ops published

A report on the operations of co-operative societies has been published. The report highlights the challenges and successes of these organizations.

CLASS WAR IS OVER—LEMMASS
 Union co-operation needed to keep prices down

THE successful negotiation of a national wage agreement between the Irish Congress of Trade Unions and the Federated Union of Employers marked the passing of the old class-war conception of society and the emergence of a new and much more intelligent partnership idea, the Taoiseach, Mr. Lemass, said last night.

Saigon seized in rapid coup

Saigon was seized in a rapid coup today, according to reports from the region. The event has caused significant international concern.

OPENING POLL IN CORK

An opening poll was held in Cork today, marking a significant event in the local community.

CLASS WAR IS OVER—LEMMASS

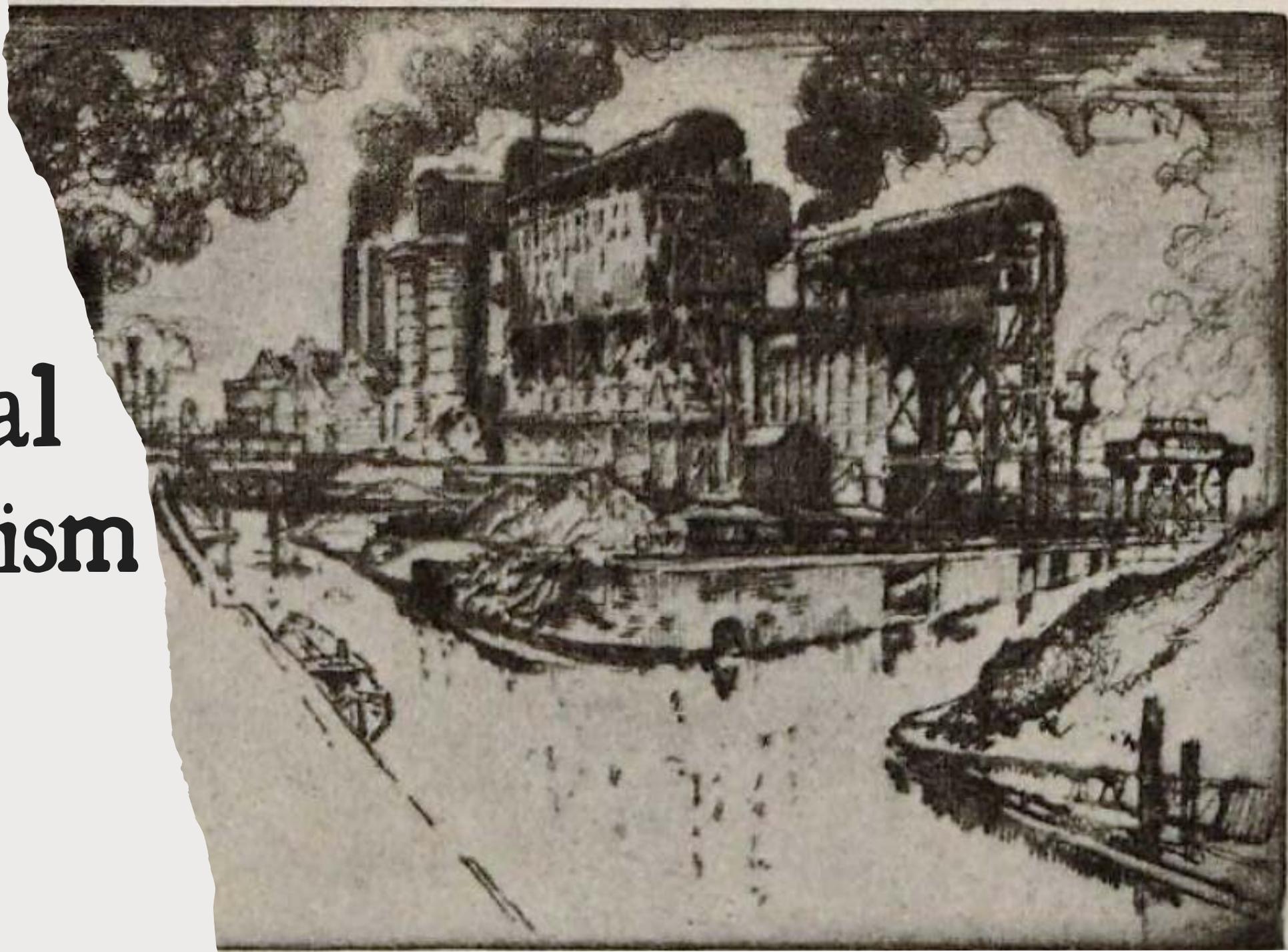
Union co-operation needed to keep prices down

THE successful negotiation of a national wage agreement between the Irish Congress of Trade Unions and the Federated Union of Employers marked the passing of the old class-war conception of society and the emergence of a new and much more intelligent partnership idea, the Taoiseach, Mr. Lemass, said last night.

Speaking at the annual dinner of the Association of Advertisers in Ireland, in the Shelbourne Hotel, Dublin, he also drew attention to some of the problems the 12% wage increase could cause, but pointed out how they could be avoided.

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Historical Materialism



a pump work without muscular exertion on the part of a man or a horse or some other docile animal. Science is finding things out: and in that sense history is a science.

(b) The object of history. One science differs from another in that it finds out things of a different kind. What kind of things does history find out? I answer, res gestae: actions of human beings that have been done in the past. Although this answer raises all kinds of further questions many of which are controversial, still, however they may be answered, the answers do not discredit the proposition that history is the science of res gestae, the attempt to answer questions about human actions done in the past.

(c) *How does history proceed?* History proceeds by the inter-

PLOT



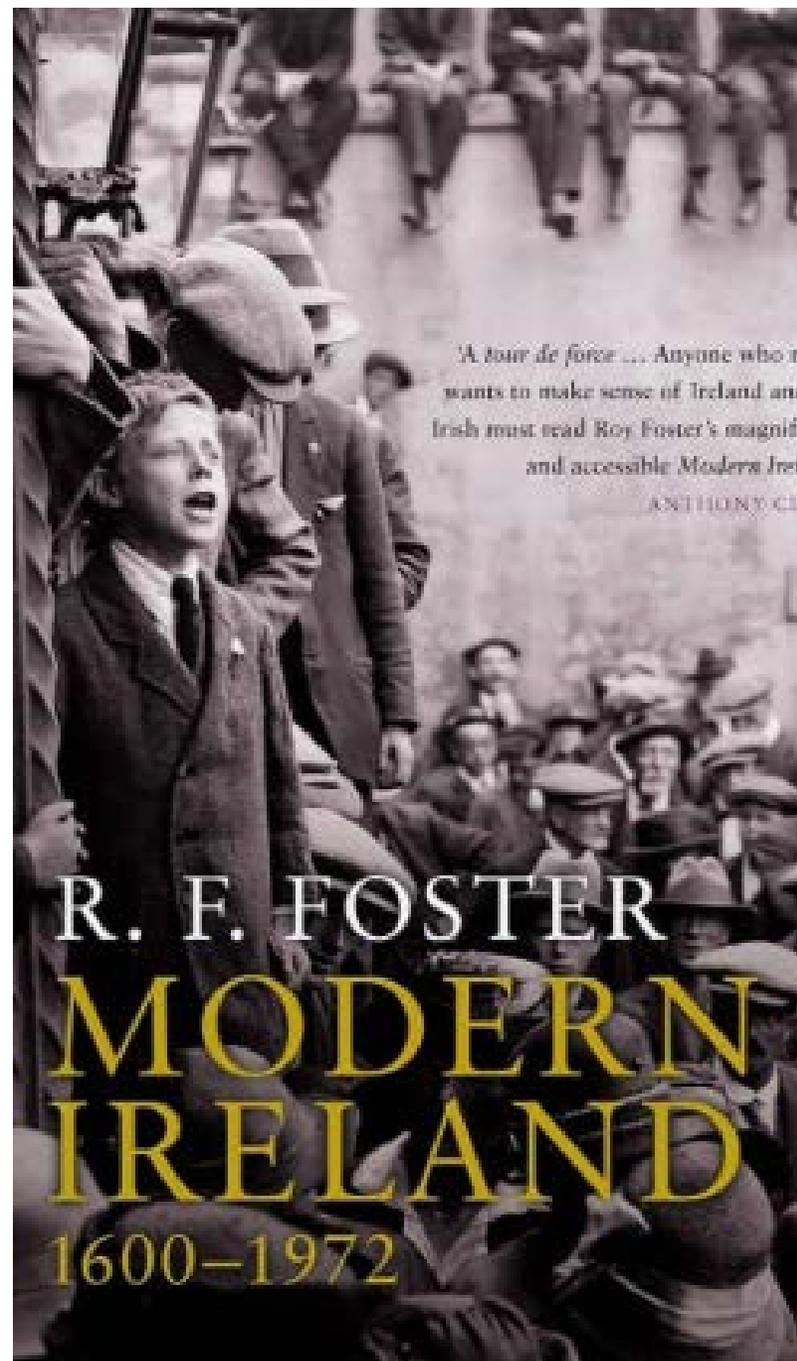
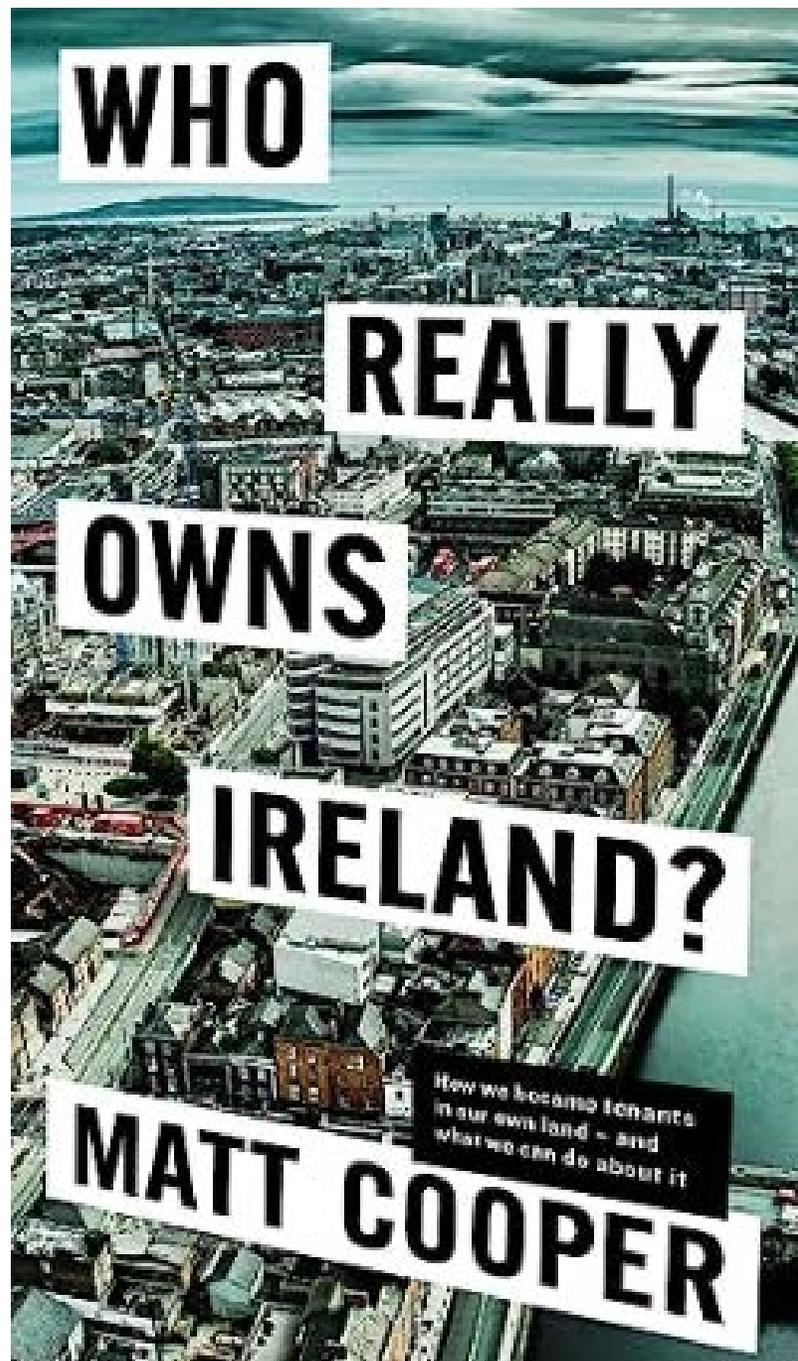
CHARACTERS



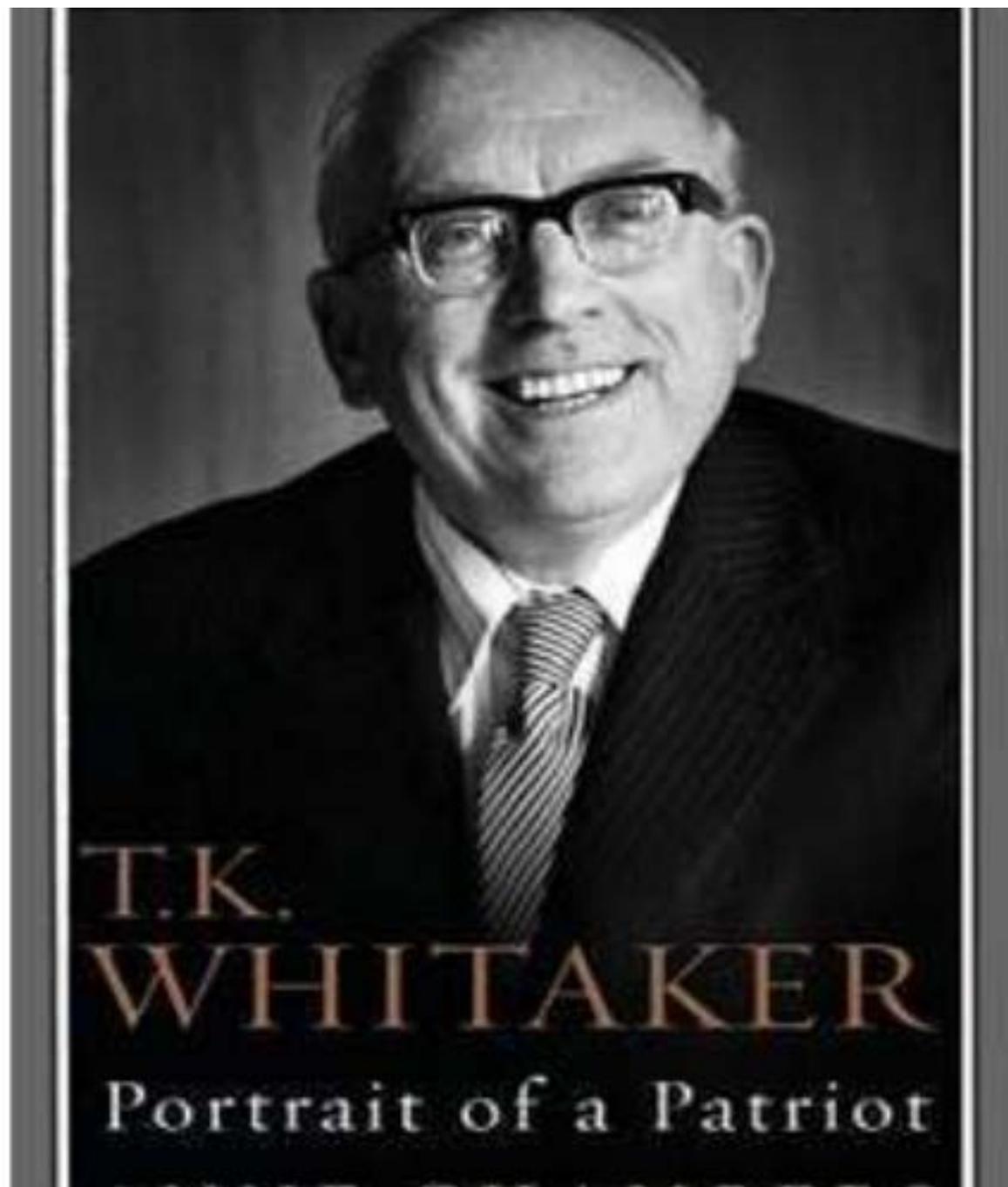
EVENTS



MOTIVATION









What about Ireland? Is there any other country that offers a more stable business climate for American manufacturers?

Businessmen experienced in international

opportunity for growth. A young and vigorous country dedicated to industrial expansion.

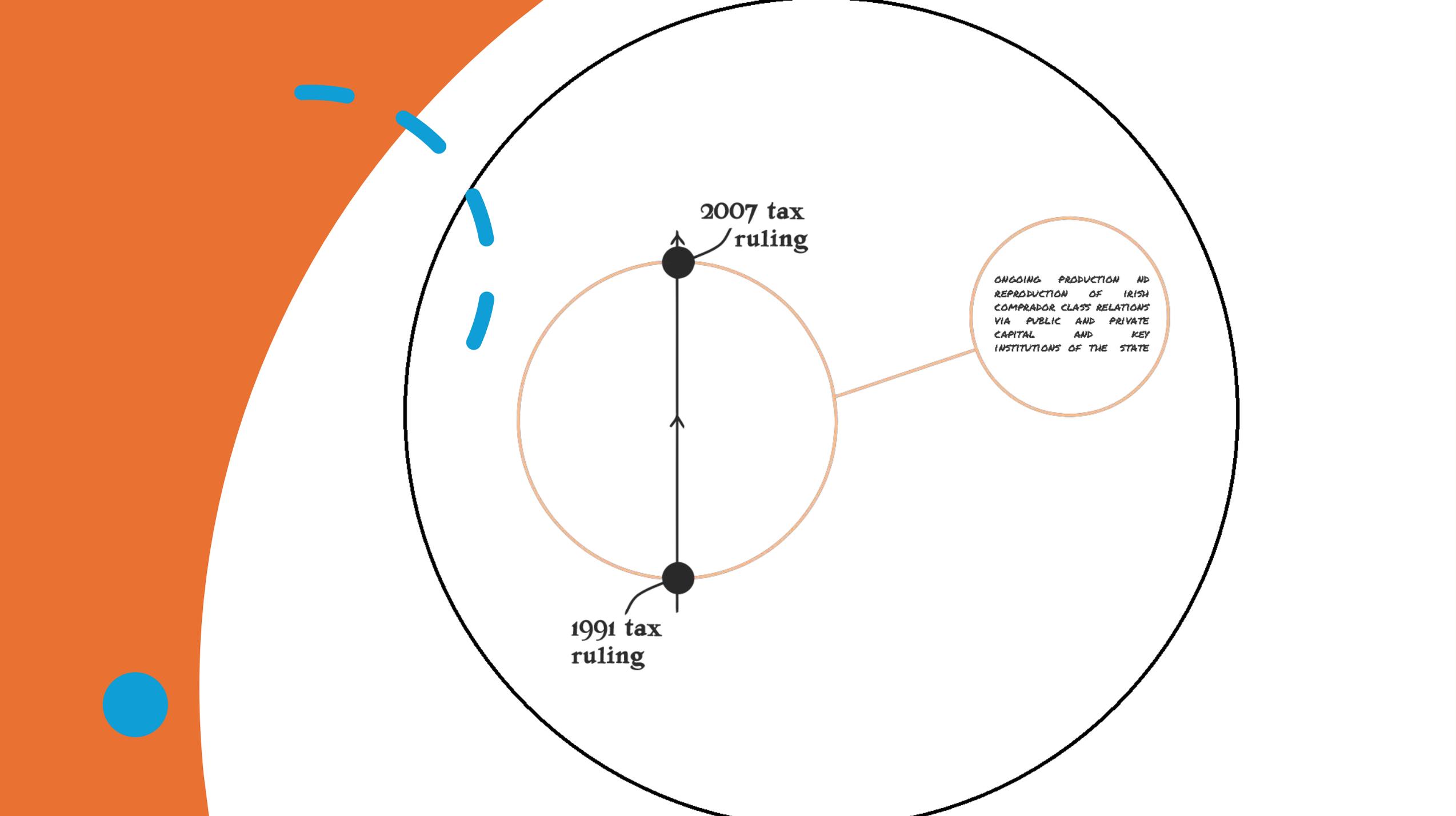
ucated. Their way of life is closer to that of Americans than the pattern found in



2007 tax ruling

1991 tax ruling

ONGOING PRODUCTION AND REPRODUCTION OF IRISH COMPRADOR CLASS RELATIONS VIA PUBLIC AND PRIVATE CAPITAL AND KEY INSTITUTIONS OF THE STATE



Karl Marx, "Theses on Feurbach" (1844)

All social life is
essentially *practical*.

Karl Marx, "Theses on Feurbach" (1844)

All social life is
essentially *practical*.

All mysteries which lead
theory to mysticism find
their rational solution

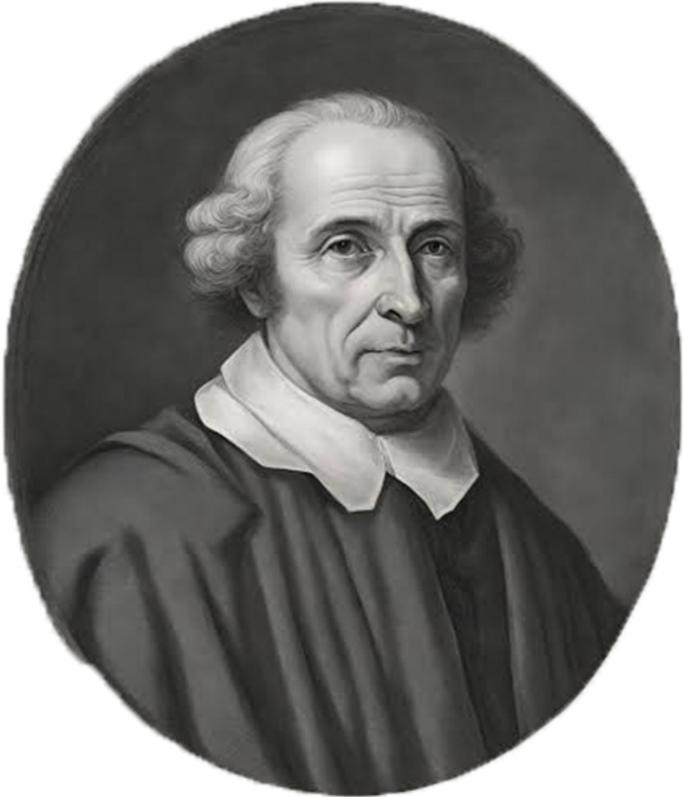
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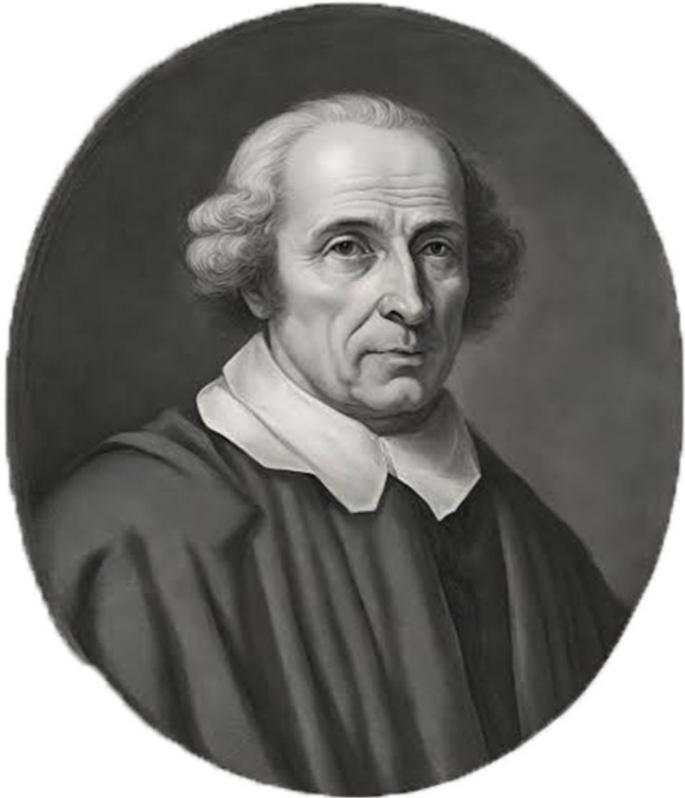
in human practice and in
the comprehension of this
practice.

The ways of God and Nature may contain mysteries - but anything made by humans, can be understood by humans



Giambattista Vico
(1668-1744)

The ways of God and Nature may contain mysteries - but anything made by humans, can be understood by humans



Giambattista Vico
(1668-1744)

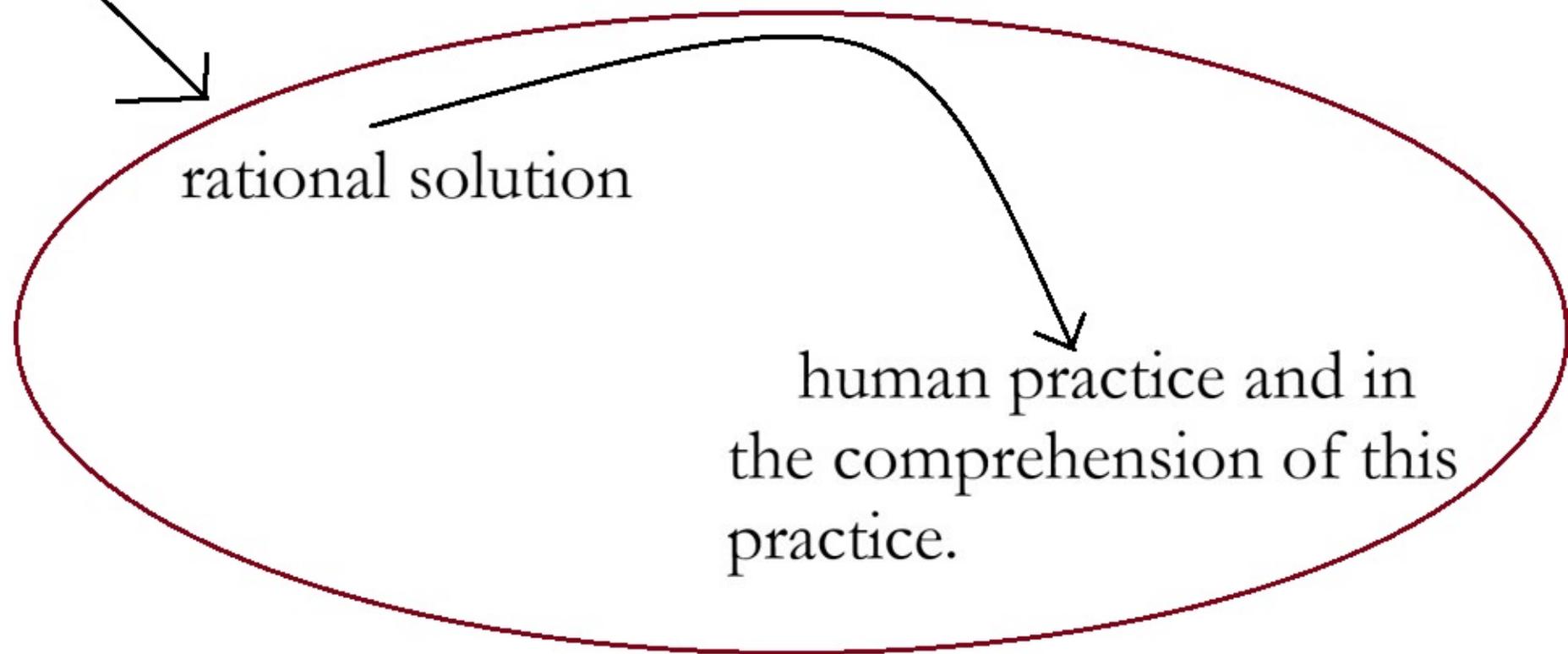
Including society, which is not mystical but the work of human hands and minds



Karl Marx, "Theses on Feurbach" (1844)

All social life is
essentially *practical*.

highly abstract - so some form of
ideological framework is needed



Karl Marx, "Theses on Feurbach" (1844)

All social life is essentially *practical*.

highly abstract - so some form of ideological framework is needed



PENGUIN CLASSICS

KARL MARX

CAPITAL
VOLUME I

rational solution

human practice and in the comprehension of this practice.

The physicist either observes natural processes where they occur in their most significant form, and are least affected by disturbing influences, or, wherever possible, he makes experiments under conditions which ensure that the process will occur in its pure state. What I have to examine in this work is the capitalist mode of production, and the relations of production and forms of intercourse [*Verkehrsverhältnisse*] that correspond to it. Until now, their *locus classicus* has been England. This is the reason why England is used as the main illustration of the theoretical developments I make. If, however, the German reader pharisaically shrugs his shoulders at the condition of the English industrial and agricultural workers, or optimistically comforts himself with the thought that in Germany things are not nearly so bad, I must plainly tell him: *De te fabula narratur!**

Intrinsically, it is not a question of the higher or lower degree of

his economic works, for example those on the historical character of capital, on the connection between the relations of production and the mode of production, etc., etc., even down to the terminology created by me, this may perhaps be due to purposes of propaganda. I am of course not speaking here of his detailed working-out and application of these propositions, which I have nothing to do with.

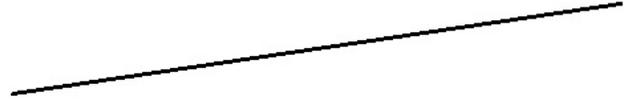
*'The tale is told of you' (Horace, *Satires*, Bk I, Satire 1).

development of the social antagonisms that spring from the natural laws of capitalist production. It is a question of these laws themselves, of these tendencies winning their way through and working themselves out with iron necessity. The country that is more developed industrially only shows, to the less developed, the image of its own future.

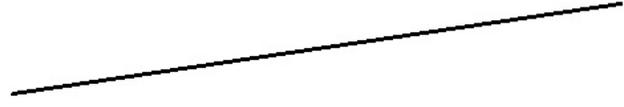
But in any case, and apart from all this, where capitalist production has made itself fully at home amongst us,* for instance in the factories properly so called, the situation is much worse than in England, because the counterpoise of the Factory Acts is absent. In all other spheres, and just like the rest of Continental Western Europe, we suffer not only from the development of capitalist production, but also from the incompleteness of that development. Alongside the modern evils, we are oppressed by a whole series of inherited evils, arising from the passive survival of archaic and outmoded modes of production, with their accompanying train of anachronistic social and political relations. We suffer not only from the living, but from the dead. *Le mort saisit le vif!*†

The social statistics of Germany and the rest of Continental Western Europe are, in comparison with those of England, quite

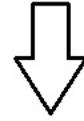
Mode of
Production



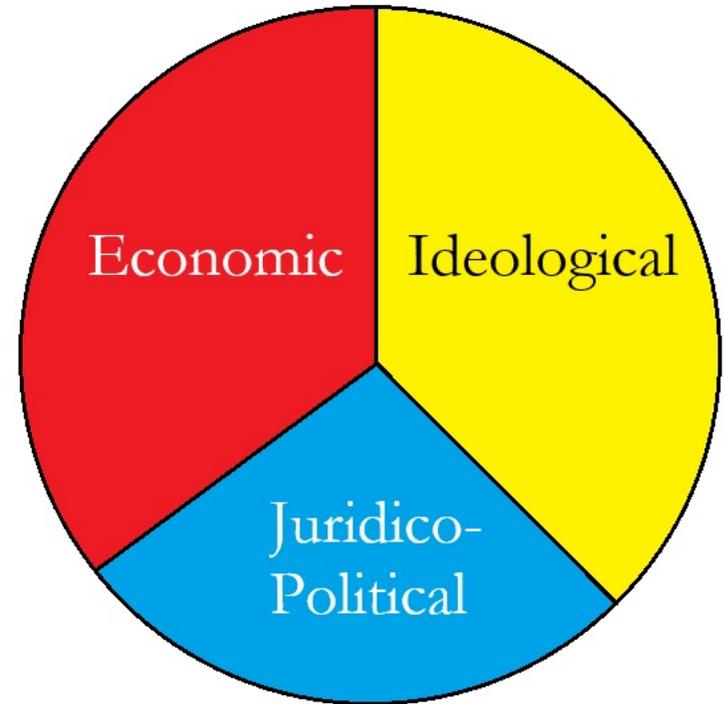
Mode of
Production

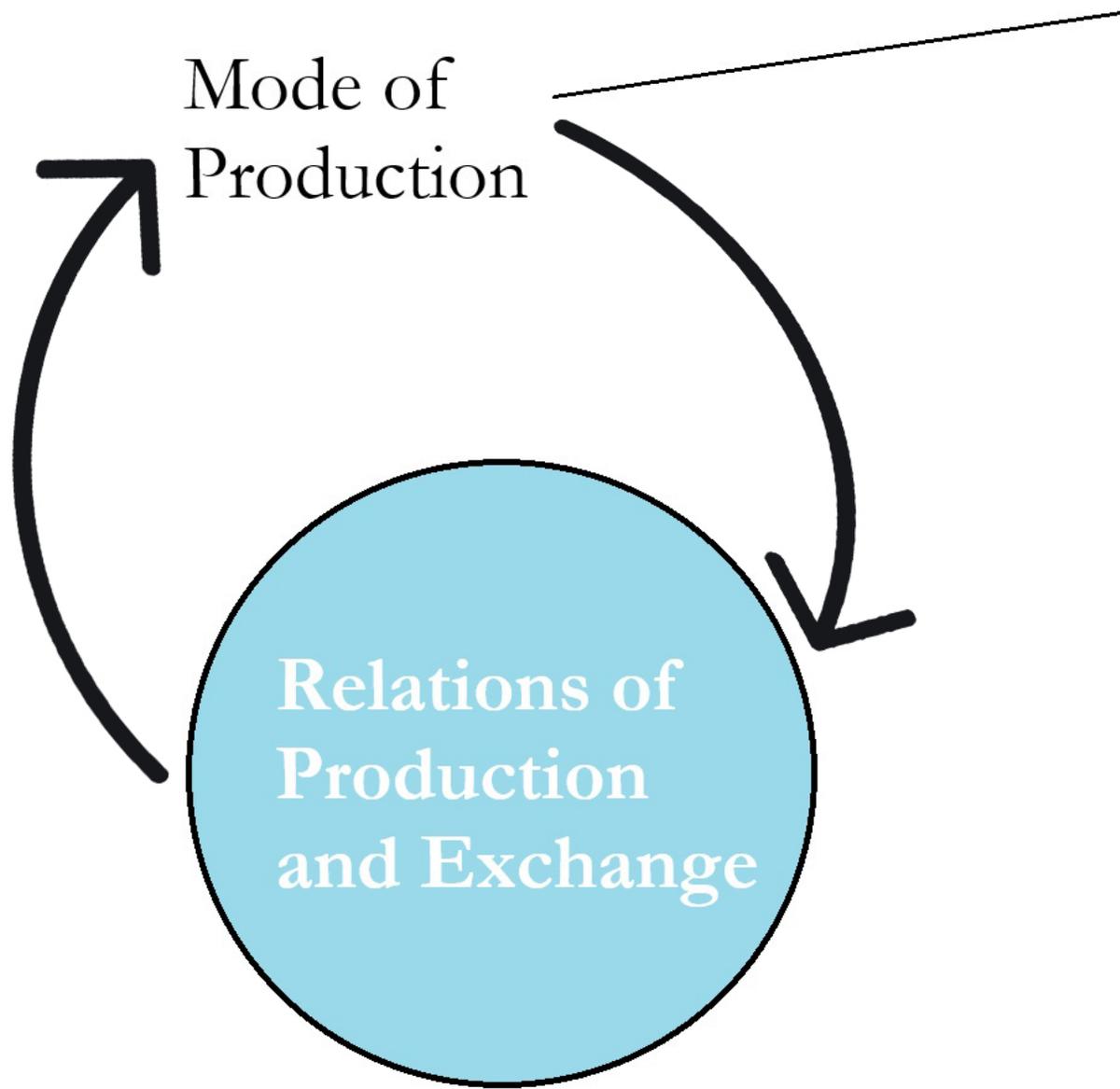


Theoretical Concept

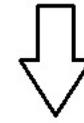


Entire Social Totality

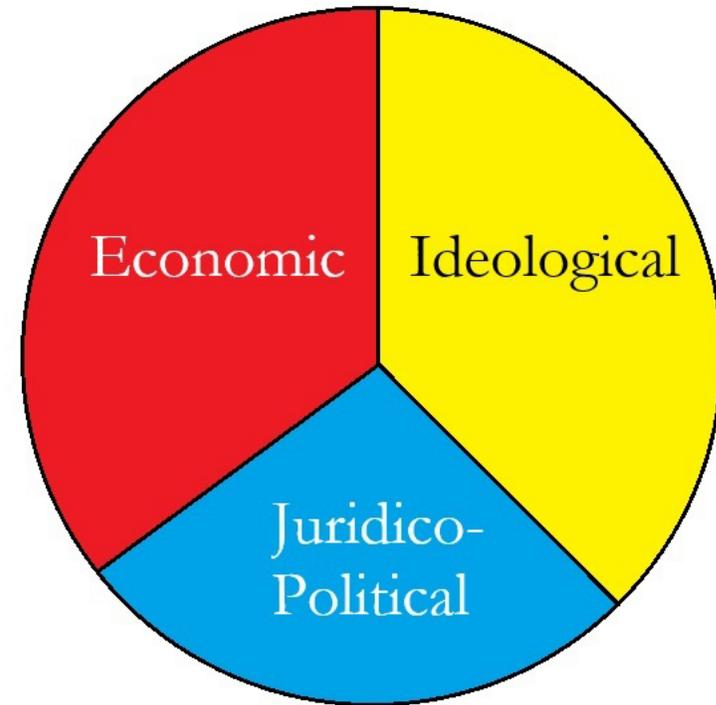




Theoretical Concept



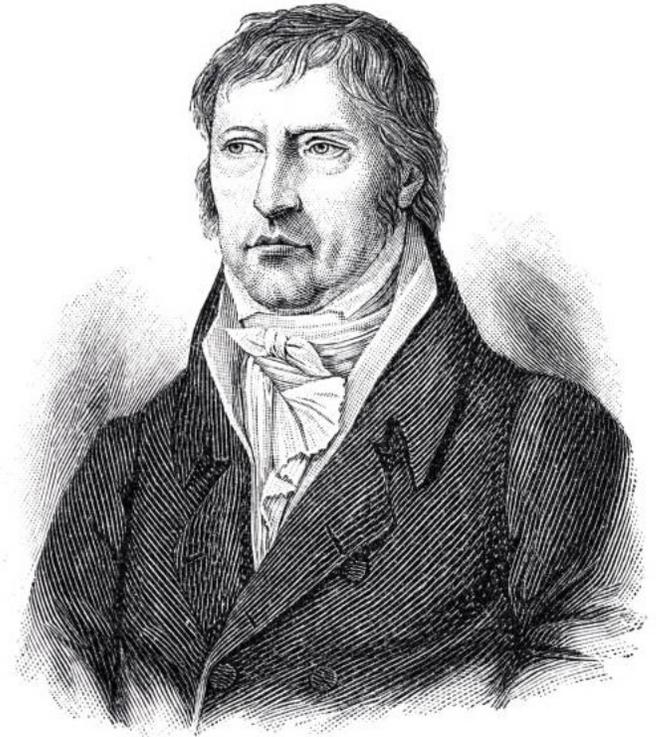
Entire Social Totality

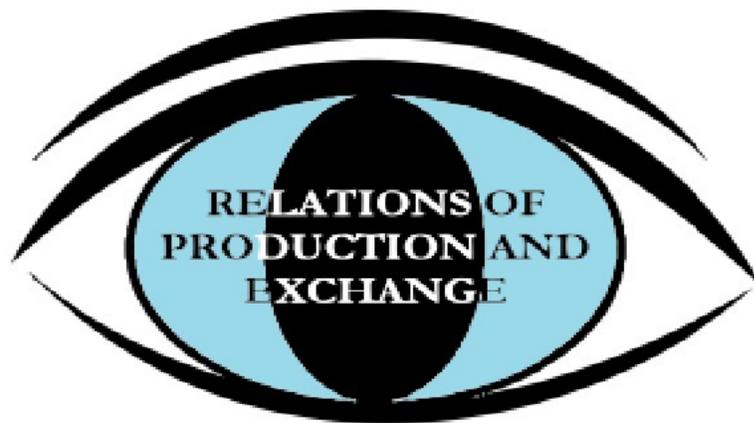




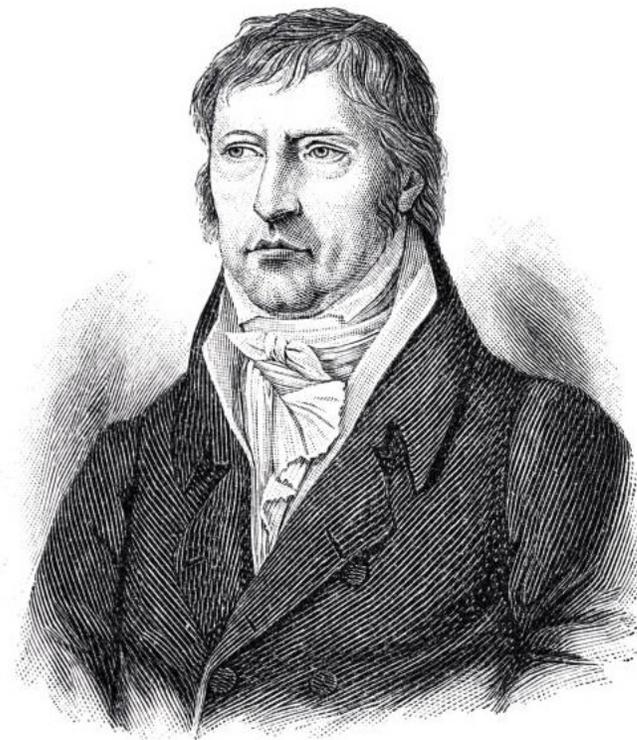


History as a finding of underlying structures in the world that are not immediately evident in experience.





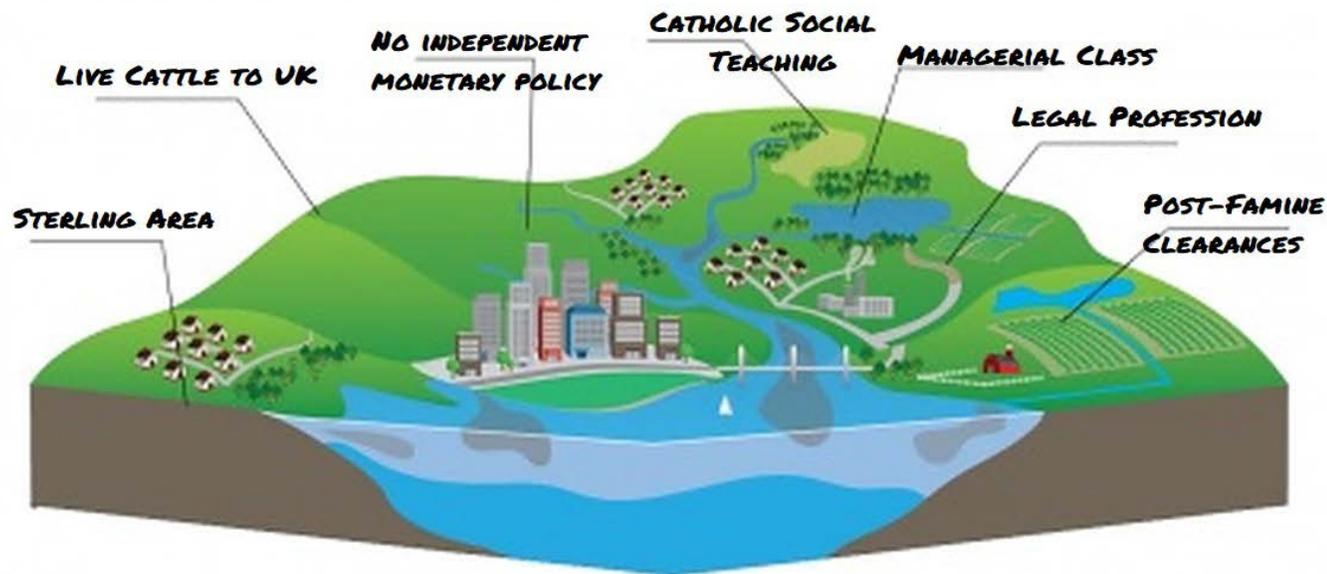
History as a finding of underlying structures in the world that are not immediately evident in experience.



To be radical, or to be a scientist, is the same thing; it is a question of trying to go to the root of the matter. For Marx, this meant trying to uncover the “economic laws of motion of modern society,” that is, first of all, seeing society as an organism in motion constantly changing and developing as it moves from its beginning to its end, and second of all, searching in the economy, i.e., in changing conditions of production and exchange, for the underlying basis of this motion.

In this essay, I wish to follow Marx’s approach by viewing the present conjuncture of international politics and economics in terms of the long-term growth and spread of capitalist social relations of production to a world level. More concretely, I want to try to relate the current crises in national and international politics to the world market created during the last twenty-five years by the American Empire, first by examining Keynes’ 1933 warnings of the difficulties and dangers for the develop-

- STEPHEN HYMER (1974)



the creation of the National Asset Management Agency.

The power to do that did not develop overnight. In order to find the reason why that class was able to wield such influence at such short notice, we are going to have to dig. This book sets out a historical analysis of the events of September 2008 in order to achieve that objective.

History provides a canvas wide and deep enough to enable us to see the economic and political mechanisms, the machine itself, in motion. By looking at the way the Irish economy actually works – the deep structures and investment strategies – the government's response to the banking crisis, despite its inherent insanity, starts to make sense. The logic behind it reveals itself. It is still deeply shocking, but it was not the result of a few bad apples.

The plan of the book is, hopefully, straightforward enough. There are four chapters dealing with the development of the Irish economy, and two chapters on the crisis itself. It starts with housing, as the subject is saturated with so many myths and half-truths that it demands a factual analysis. There is no Irish property-owning gene. It is not part of our DNA. Home ownership outside of rural areas is a relatively new phenom-





Money





Fourteenth Edition

MACROECONOMICS

PRINCIPLES and POLICY

William J. Baumol
Alan S. Blinder
John L. Solow

Money is the standard object used in exchanging goods and services. In short, money is the medium of exchange.

The **medium of exchange** is the object or objects used to buy and sell other items such as goods and services.

The **unit of account** is the standard unit for quoting prices.



Fourteenth Edition

MACROECONOMICS

PRINCIPLES and POLICY

William J. Baumol
Alan S. Blinder
John L. Solow

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The most obvious way to trade commodities is not by using money, but by barter—a system in which people exchange one good directly for another. And the best way to appreciate what monetary exchange accomplishes is to imagine a world without it.

12-1a Barter versus Monetary Exchange

Under a system of direct barter, if Farmer Jones grows corn and has a craving for peanuts, he has to find a peanut farmer, say, Farmer Smith, with a taste for corn. If he finds such a person (a situation called the *double coincidence of wants*), the two farmers make the trade. If that sounds easy, try to imagine how busy Farmers Jones and Smith would be if they had to repeat the sequence for everything they consumed in a week. For the most part, the desired double coincidences of wants are more likely to turn out to be double wants of coincidence. Jones gets no peanuts and Smith gets no corn. Worse yet, with so much time spent looking for trading partners, Jones would have far less time to grow corn. In brief:

Money greases the wheels of exchange and thus makes the whole economy more productive.

Under a monetary system, Farmer Jones gives up his corn for money. He does so not because he wants the money *per se*, but because of what that money can buy. With cash in hand, he simply needs to locate a peanut farmer who wants money. And what peanut farmer does not? For these reasons, monetary exchange replaced barter at a very early stage of human civilization, and only extreme circumstances, such as massive wars and runaway inflations, have been able to bring barter back—temporarily.

12-1b The Conceptual Definition of Money

Under monetary exchange, people trade money for goods when they purchase something, and they trade goods for money when they sell something, but they do not trade goods directly for other goods. This practice defines money's principal role as the medium of exchange.

But once money has become accepted as the medium of exchange, whatever serves as money is bound to serve other functions as well. For one, it will inevitably become the

THE INTERNATIONAL SCIENTIFIC SERIES.

MONEY AND
THE MECHANISM OF EXCHANGE.

BY

W. STANLEY JEVONS, M.A., F.R.S.,

PROFESSOR OF LOGIC AND POLITICAL ECONOMY IN THE
OWENS COLLEGE, MANCHESTER.

336

57

NEW YORK:

D. APPLETON AND COMPANY,

72 FIFTH AVENUE.

1896.

“The first difficulty in barter is to find two persons whose disposable possessions mutually suit each other’s wants. There may be many people wanting, and many possessing those things wanted; but to allow of an act of barter, there must be a double coincidence, which will rarely happen...

Sellers and purchasers can only be made to fit by the use of some commodity, some *marchandise banale*, as the French call it, which all are willing to receive for a time, so that what is obtained by sale in one case, may be used in purchase in another. This **common commodity is called a medium of exchange**, because it forms a third or intermediate term in all acts of commerce.” pp. 3-4.

Money:

a store of value

medium of exchange

unit of account
(currency)

historical progression
from barter



Money

CONOR McCABE

The emergence of money is often explained by the limits of barter as a form of exchange. A cobbler wants a chicken, but the farmer does not want shoes. They cannot swap their goods, so the cobbler has a bright idea and gives the farmer a token. With this token the farmer can go off and get the things he needs.



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First of all, how does a cobbler get to be a cobbler solely through barter? How come it is only after his apprenticeship and years of decent living that he is finally confronted with a non-barter quandary when he is in search of a chicken but only finds a well-shod farmer?

Money

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The dilemma raised by the story of the non-existent farmer and the cobbler – I have something you want *at this moment*, but you do not have something I want *at this moment* – was solved by ancient societies through a simple mechanism: **credit**.



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The two-dimensional world of instant give and receive was transformed by the addition of a third dimension: **time**.



Money

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The elongation of the settlement of payment via an obligation to pay mechanism gave complex human societies the space to expand and function.

Even today, the breakdown of this mechanism will cause a society to crash. The tools may change but the innovation, paradoxically, stays the same.

Money

CONOR McCABE

The settlement of debts was not confined to market transactions. Money in so-called primitive societies was not used simply to facilitate market transactions. It was also used

“to create, maintain, and otherwise reorganize relations between people: to arrange marriages, establish the paternity of children, head off feuds, console mourners at funerals, seek forgiveness in the case of crimes, negotiate treaties, acquire followers – almost anything but trade in yams, shovels, pigs, or jewelry.”

David Graeber. *Debt: The first 5,000 Years* (2011)

Over 4,000 years ago debt contracts were drawn up in Mesopotamia that were interest-bearing obligations.

All of this was done without coin or currency as we know it.

Nor were the Mesopotamians swapping chickens for shoes.

They had a detailed and effective credit system that operated without recourse to a physical currency. They operated a fully functioning monetary system that worked because **they had a standard for the measurement of value** against which debts and obligations were calculated.



Money

CONOR McCABE

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They were also utilised as a means of payment – that is settling accounts, not merely measuring them – and they allowed individual households and the city hierarchy to engage in economic, social and cultural activities of distribution, redistribution and financial advancement, *across space and time*.

Money

CONOR McCABE

The object used to measure value



(unit of account)

is not necessarily the object
used to settle the debt



(means of payment)



Money

CONOR McCABE

In the case of early Christian Ireland there were two units of account – the sét and the cumal – which were used **to quantify the value of social obligations** as well as fines for ‘injury, murder, improper distraint, improper use of legal procedure, trespass, theft, cutting down protected trees, and so forth’.

The sét and the cumal simply measured the debt; cattle, silver and grain were used as actual payment.



Money

CONOR McCABE

Units of account (measurement) and means of payment (settlement) were developed as practical solutions to societal dynamics. They arose out of the everyday actions and interactions of people. They did not arise out of barter and they were not contingent on coin.



Money

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Units of account (measurement) and means of payment (settlement) were developed as practical solutions to societal dynamics. They arose out of the everyday actions and interactions of people. They did not arise out of barter and they were not contingent on coin.

Neither did they exist only when there was a market need for them. It was not just the exchange of goods but the settlement of societal debts and obligations that gave rise to an agreed accounting system to facilitate that process.

Money

CONOR McCABE

Money, therefore, is
a societal need.

It is a *social*
technology.

Money

CONOR McCABE

It is also used for market exchange for sure, but it is in essence a technology that allows people to smooth their relationships with each other in complex societal structures, be they ancient settlements of Mesopotamia, rural settlements of early Christian Ireland, or present-day globalised cities such as Tokyo, London or New York.

Money

CONOR McCABE

The **unit of account** and **means of payment** are **codified** through specific **laws** and **accountancy** structures that vary from society to society, but the concepts and their application are universal and human.



Money

CONOR McCABE

The advent of coin around 700 bce brought a new element to the dynamic, not because of the metal that was used but because of the authority that was, literally, stamped on it.

Whereas the history of credit is social, the history of coin is, in essence, the history of state power.



Money

CONOR McCABE

The political project of the physical currency of coin was to centralise all the key aspects of the monetary system— **unit of account, means of payment, store of value, and medium of exchange** – into one exclusive physical expression under the control of a state power.



Money

CONOR McCABE



It took hundreds of years to finally bed down coin as the consolidated expression of the monetary system: that is, the one item that could be used for all four actions - measurement, settlement, storage and exchange.

It also took a lot of killing.

Coin as money – as the one, true, embodiment of the monetary system as a whole – was a bloody, coercive act of political and state savagery.

Money

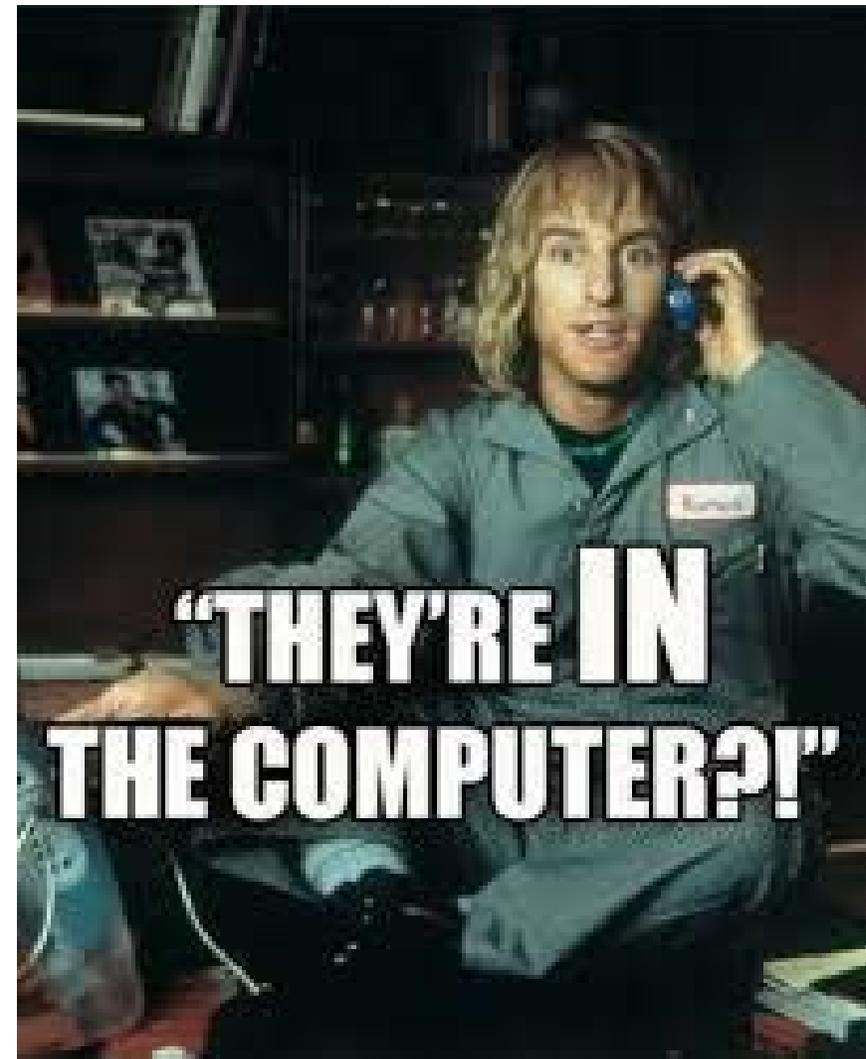
CONOR McCABE



The demise of coin in Britain, and its moribund status in mainland Europe, did not mean an end to economic and social activity across the continent.

It did pose significant challenges, however, for the various power blocs that stepped into the vacuum caused by the decline of empire.

In order to give coin the authority it lacked as a result of a barely functioning state apparatus, a greater emphasis was placed on the materiality of the coin rather than the face of the king it carried.



It is during this period that the idea that the moneyness of a coin is contained in its metal – the assumption that ‘money is simply the commodity [the metal] it contains’ – really begins to take shape in Europe.

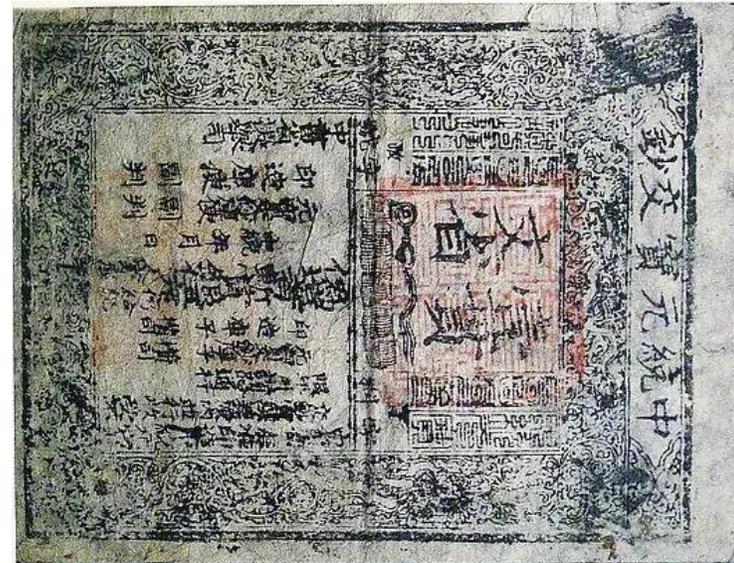
The significance of this shift in thinking is that money became associated more with the thing that was used as money (coin), rather than with the governing authority that it represented.

Money

CONOR McCABE

Meanwhile the Chinese arrive at their own way of ‘making money’. They swapped metal for paper and gave it the ruler’s authority.

In other words, they printed it



Italian City-States 1300s to 1500s



Image IBCAO

Data SIO, NOAA, U.S. Navy, NGA, GEBCO

Image Landsat

Google earth

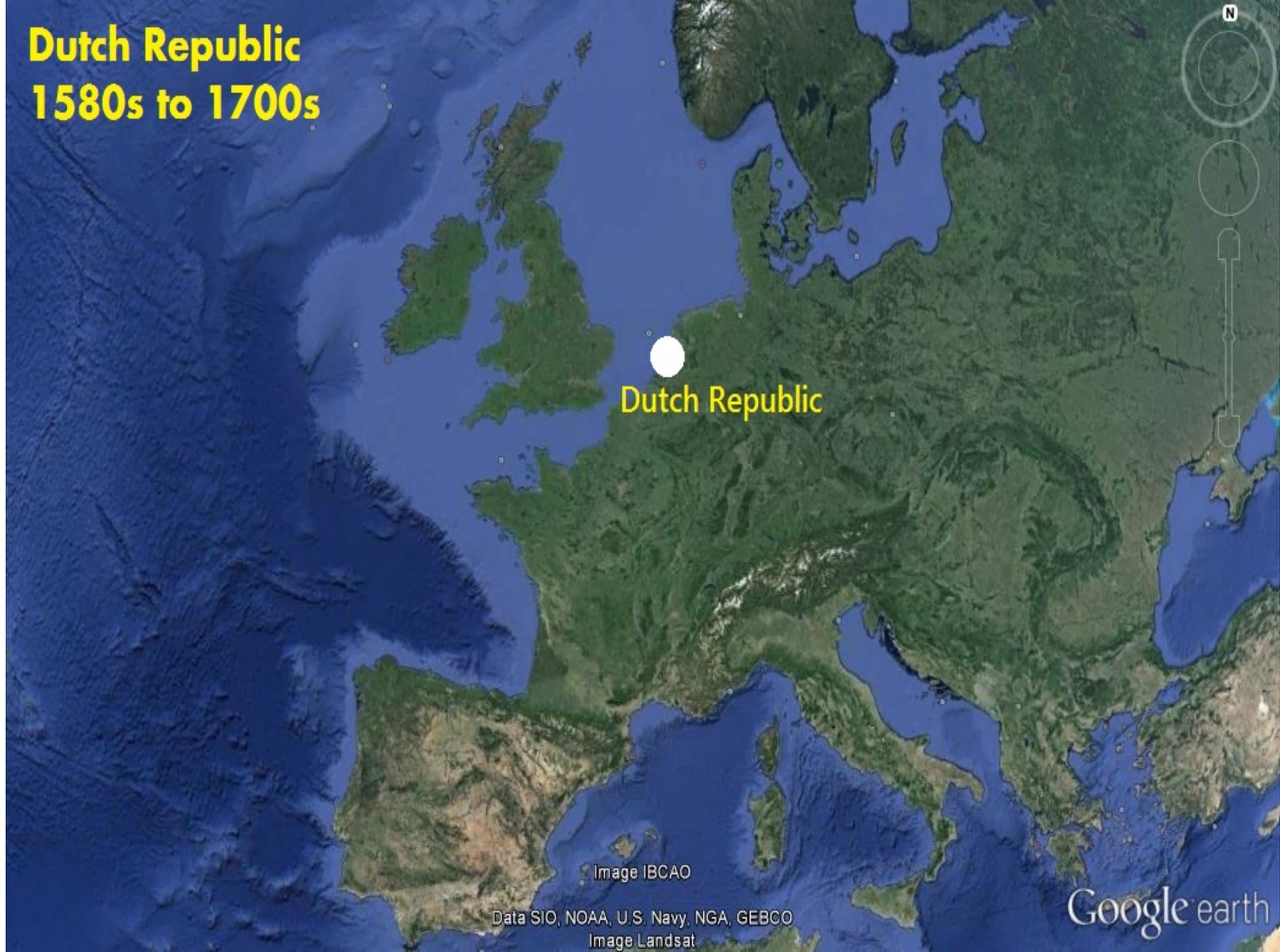
**Dutch Republic
1580s to 1700s**

Dutch Republic

Image IBCAO

Data SIO, NOAA, U.S. Navy, NGA, GEBCO
Image Landsat

Google earth



London 1660s

City of London

Image IBCAO

Data SIO, NOAA, U.S. Navy, NGA, GEBCO
Image Landsat

Google earth



Bank of England 1694

