Chapter 6

On the Nature of Money

There is nothing more astonishing than the fact that those who ought to know most about the nature of money—including the central bankers who issue it and the monetary authorities and economists who supposedly know all about it—have the foggiest notions about what money in actuality is.

There are two reasons for this: (1) the fact that the truth about its nature is obscured by the complexity of the ways in which it comes into existence, and (2) the fact that, because of this, it is defined in all the texts on economics and in all the dictionaries and encyclopedias not in terms of *what it is* but in terms of *what it is used for*. To dispel this obscurity a whole book would be needed; to define it properly only a few paragraphs.

Existing definitions state that money is a medium of exchange, that it is a measure of value, that it is a store of value, and so on *ad infinitum*. None of these statements are true. They state not what money is factually but what money is used for functionally. A pencil can be used to scratch one's head, but this does not justify anybody in saying that a pencil is a head-scratcher. No matter how used, a pencil is a pencil.

What money in reality is, is a claim. It is a claim in the same sense that bills and invoices, promissory notes and mortgages, and entries of accounts receivable in a ledger are claims against those who are obligated to pay the bills, the notes and the accounts they owe to those to whom they owe them.

But it is a claim which differs from all other kinds of claims in four ways: (1) the holder's claim is a claim against the government or bank-of-issue whose money he has accepted; (2) the money itself may consist either of bank-money on deposit in a bank, printed notes, or coinage; (3) the holder of the money is entitled to the redemption of his claim in full on demand; and (4) the value of the goods or services he can buy with the redemption must be the same as the value of the goods he sold or the services he rendered when he accepted the money. If the value is either more or less, cheating takes place. If its purchasing power has been reduced, those who use it to buy are cheated; if it has been increased, those who accept it in selling are cheated.

True, when money is *used* to buy and sell things it is *used* as a medium of exchange. True, when it is *used* to put a price on something, it is used as a measure of value. And true, when it is stored in a tin box or safe for future *use,* it is *used* as a store of value. But no matter how used, it is none of these things. No matter how often it changes hands and no matter how different the uses made of it, it remains at all times *a claim against the original issuer of the money.*

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Money, is not, however, just a claim the repudiation of which injures only the claimant. Repudiation, even if only partial, injures everybody who has or uses money. Inflation of the money supply is such a partial repudiation. Only the issuer benefits from this; everybody else loses by it. It injures everybody who uses the money because it raises the price

level by making everybody pay more money for the same goods and because it reduces the purchasing power of everybody who earns money or saves it.

For the full significance of the fact that money is a claim to be appreciated, it is important to bear in mind that this is what not only the United States but all the nations which are members of the IMF are ignoring. What they are doing is in effect a form of massive repudiation of honest claims which should be fully and honestly redeemed. What they are doing should not be called inflation; it should be called legalized embezzlement.

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While all the many kinds of money used throughout the world are claims—each nation has its own kind—the fact that there are three basic kinds of money must be taken into account and positions with regard to each of them taken. These three basic kinds of money consist of what will be called in the terminology of this study (1) bank-money, (2) paper-money, and (3) metal-money.