

## The origin and essence of money. Modern point of view

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### ABSTRACT

#### Keywords:

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**Introduction.** Attempts to determine the origin, nature and role of money have a long history. In particular those questions were put back in the writings of classical political economy by Adam Smith and David Ricardo. We notice a lot of conflicting opinions analyzing the current theoretical research on the money essence and nature. So the article was to explore these issues more deeply and show the vision of the problem because we consider it relevant in modern economy which is constantly changing and transforming.

**Materials and methods.** Theoretical and methodological basis of research was the work of local and foreign scientists. Investigated and analyzed work of Adam Smith and David Ricardo, K.R.MacConnell, S.L. Brue, V. Usoskin, L. Krasavina, G. Kravtsova, M. Savluk, A. Moroz and others.

**Results.** We can note the diversity and complexity of monetary nature having examined the basic views on the essence of money. Money is in constant evolution, its development is not straightforward and has a recurring character. Attempts to transfer patterns of well-studied forms of money in their present understanding can not be very successful. Moving, dynamic nature, variability, transition from one dominant traits of money to another, do not give an opportunity to understand their essence in whole. From the first emergence of goods production and to the present time there were some significant changes. Loan nature of money replaced the commodity nature. Money took on features of the capital cost. However, there is an information component in the substance of money. In spite of the fact that the essence of money is a complex phenomenon, it is fully cognized. A universal definition of money, in our opinion, does not exist as well as an ideal form of money. In fact money is the basis of their ability to be a repository, concentration of value equivalent, an instrument of economic relations between people and a mirror that reflects all the contradictions of our society.

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## Introduction

Money is a kind of mystery, a phenomenon that always attracts philosophers and practical economists' attention. It can be considered one of the most important creations of human society. People work and suffer through money inventing different ways of getting and spending it. Money - is the only product that can not be used in a different way than spending it. It does not feed people or give shelter, it entertains as long as it is spent or invested. People do almost everything for money and money does almost everything for people.

**Problem and analysis of recent research.** Attempts to determine the origin, nature and role of money have a long history. In particular those questions were put back in the writings of classical political economy by Adam Smith and David Ricardo. Thereafter, they were generalized and worked up critically processing by other major theorists of the XIX-XX centuries: K. Marx, G.S. Mille, W. Jevons, L. Walras, A. Marshall. In the first half of XX century the theory of money was developed in the works of modern economics classics J. Hicks, P. Samuelson, J. Tobin, and F. Modigliani, D. Patinkin, M. Friedman. The scientists of our century K.R. MacConnell, S.L. Brue, V. Usoskin, L. Krasavina, G. Kravtsova, M. Savluk, A. Moroz, M. Puhovkina, A. Shchetinin, A. Demkivsky continued the research. We notice a lot of conflicting opinions analyzing the current theoretical research on the money essence and nature.

**Problem.** So the article was to explore these issues more deeply and show the vision of the problem because we consider it relevant in modern economy which is constantly changing and transforming.

## Materials and methods

Theoretical and methodological basis of research was the work of local and foreign scientists. Investigated and analyzed work of Adam Smith and David Ricardo, K.R. MacConnell, S.L. Brue, V. Usoskin, L. Krasavina, G. Kravtsova, M. Savluk, A. Moroz and others.

## Results and discussion

What is a true meaning of the word "money"? This word is too old for any existing direct information. It is much older than current understanding. Etymology (from ancient Greek «τὸ ἔτυμον» - «true meaning» and from ancient Greek «ὁ λόγος» - «word») of the word "money" is difficult in any language.

Note that the English word «money» resonates with the Latin «moneta» - the so-called Roman goddess Juno (from Latin Juno Moneta), who warned the Romans of the earthquake oncoming (Latin «moneo» - heralds). There were workshops near the temple of Juno on the Capitol in Rome where metal money was minted. The common name of money in English could be due to this title.

Perhaps, «money» is derived from French. «Moneie» or «monere» means council within the meaning of "the goddess warning".

A large number of scientific papers is devoted to problems of money and money circulation. Today the commonly accepted theory of money does not exist. There are significant differences in all the basic questions of monetary theory among economists, and in particular such as the causes of money laundering as the essence of economic phenomenon, structure and content of their functions [11].

Currently, rationalist and evolutionary conceptions of the money origin are the most conspicuous. Fundamentally different approaches to the interpretation of the origin of money are used in these conceptions.

Rationalist conception of the origin of money historically occurred first. It explains the origin of money as a result of agreement between people about special tools which are necessary for moving values in barter trade. Rationalist theory of the money origin appeared first in the work of Aristotle's "Nicomachean Ethics", indicating that there should be some unit of measure for the exchange of goods by agreement.

Although the rationalist conception occurred not on scientific basis, but it had a lot of supporters among economists. The German economist and statistician G. Knapp (1842-1926) in his book "Essays on the State theory of money" (*Die staatliche Theorie des Geldes*, 1905) calls money as "product order" or "product of the state." In his opinion, the nature of money has nothing to do with the material value.

The famous British economist L. Harris at his work "Monetary theory" teaches the essence of this concept and accepts the public nature of money analyzing its form [11].

The most influential economist of the second half of the XX century. P. Samuelson in the pages of his world famous work "Economy" noted that money is an artificial social convention [8].

So, the rationalist conception denies the commodity nature of money and its natural origin. This idea of the money origin was even enshrined in law in the legal system of ancient Rome, where one of the dogmas testified that "the emperor decrees value of money." This concept of money as a contract was the leading from the ancient society to the end of the XVIII century.

According to the second - the evolutionary concept, money came as a result of evolutionary process. The transition from subsistence to commercial farming leads to the possibility of creating an additional product as a result of increased productivity of social labour. A producer needed to exchange surpluses of his labour. Thus, beyond the will of the people, this process has led to the fact that a particular product stood out from the others and occupied a special place.

One of the founders of the modern economic theory, economist and philosopher Adam Smith created the first full work, which outlines a basic theory of production and distribution. In his book "Inquiry into the Nature and Causes of the nations Wealth" published in 1776, he speaks of the desire to share things as part of human nature, and that money appeared to make the exchange more efficient than barter [9].

The Adam Smith's follower and opponent, British economist and political economy classic David Ricardo also considered money as a commodity that has value. He determined the value of money by cost of labour. Gold is the basis of the Ricardo's monetary system. Like Smith, Ricardo rarely uses the concept of consumer value. In his opinion it was necessary only for barter value.

From a large number of scientists engaged in research of the money nature the German economist Karl Marx was the most scientific. In a critical review of common economic theory of that time he starts his research with the role of money and goods in the development of capitalism. Marx investigates the facts of simple commodity production, proves scientifically the existence of commodity production and trade in precapitalist times and argues historical causes of the capital origin [7].

Categories of goods and its value was sufficiently studied by representatives and followers of classical school, but only Marx gave a short and logical definition for the largest value of goods. According to Marx, money is also a product that serves a specific

form, but due to its participation in the process of exchange, value takes the form of rates which can equal the cost and may differ from it.

Nowadays money market and its main element - money are important components of the world economy. It is not possible to construct a perfect economic model without deep theoretical knowledge, which influences on almost all the parts of society existence. The essence of money is important in studying it as an economic category.

Essence is a philosophical term that expresses the main, decisive features in the subject, which are caused by necessary internal connections and trends and known at the level of theoretical thinking. The essence always acts as inner meaning of phenomena hidden from direct perception. Theoretical determination of money hidden in their content and nature will help to understand the nature and role of money in general.

**Money as public relations.** Economists of Soviet times often determine the money through public relations [4].

According to L. Harris, the most fundamental feature of money is its social phenomenon [11].

It should be noted that money is an essential active element and integral part of economic activities, relations between various participants and links of the reproductive process. In this case, the essence of money is characterized by their participation in the implementation of various kinds of social relations, but the essence of money can not be the same, it should reflect the development of economic relations in society and money changes.

Modern economics mentions close relations between the state and the money because of extremely important economic and social role for society. We can't deny the state's role in formation and evolution of money [1].

So, money is a tool of social economic relations and a means of material resources distribution. It is not possible to cancel or change money by agreement between people or a decision until the state can not use its social relations. And the introduction of money without such relationship is impossible.

**Money as information.** Money is information about some of the cost of certain carriers, adopted by the community to create absolute confidence. Informational essence of money began to appear when the gold coin after its first steps in circulation due to its abrasion have become less cost than its face value. Informational essence of money as abstract, countable, and ideal can not be extended over all the money. Checks, calculations in giro, credit cards, electronic money which are carriers of the information about cash flows, have informational nature while the money are monetary funds in the accounts of financial institutions and checks or electronic money are direct kinds of credit money.

Money is a function they perform. According to K.R.McConnell and S.L.Brue money is something they do and everything that serves as money is money [6]. Proponents of the economic concept determine the nature of money by their functions and its value by how well money performs its functions [3].

The functions of money are the specific manifestation of form and content of a universal equivalent, that is why the disclosure of categories of money through their functions, is incorrect in our opinion. You can not consider money only through the external features of its operation. The essence of phenomena only appears, but it is not formed by them, and therefore it can not be reduced to the sum of these phenomena.

**Money as a commodity.** This view of the nature of money is to place money in the commodity exchange. In this interpretation, despite the demonetization of gold, money is a specific product that has abilities to trade for any other goods acting as a universal equivalent.

Some product usually satisfies some of the human needs. Money also represents a specific product, serving as direct and total implementation of cost, that is why it has the ability of trading for all other commodities. Normal product acts only as a product of particular work (shoemaker, baker, scientist). Money is the only product that acts as a direct implementation of abstract labour without reference to professional affiliation.

Modern money, not as a sign of gold, acts only as the sign of value and therefore is ideal as a universal equivalent. In this case the definition of money as a specific product does not disclose the nature of modern money because money became more abstract independent category in the issue of transformation. Modern money is not marketable nature, although the fact of the money origin from goods is absolute. Money as capital. Determination of current money and all the money in general due to the capital cost category is rather good. Money is not capital inherently. They can manifest itself as capital when used not as simple intermediary exchange but as money for profit.

Lending money is not the only possible form of capital. But this form of credit money merged with other traffic of loan capital more closely and led to attempts of economists to give an interpretation of modern money through the category of capital and not through commercial value.

Features of current value of money, according to some scientists and economists, are more similar to the characteristics of the capital cost but not goods [2].

Although the current credit money is not essentially a commodity, it is a transformed form of capital, as well as complete money once - gold and other goods that performed monetary functions and have been the transformed form of the product. It can manifest itself as capital.

**Financial money.** As we have discussed above, the money can be a form of movement and display of capital. In fact money is relatively easy to pass on from money in the capital and back again. Therefore it seems that there is no difference between modern money and capital. In academic world there were some mentions of the so-called financial funds, which are essentially financial instruments. Financial instruments are financial assets / liabilities, and distribution and redistribution of created capital are implemented through intermediary of them. A financial instrument is a legal document that reflects some contractual relationship or provides certain rights, which include stocks, bonds, checks, bills, certificates of deposit, etc..

Thus, financial money can be called as securities of various kinds, a new class of money intended for maintenance of capital accumulation and redistribution of income in society.

The need for financial money is determined by the fact that lending money, even in its best form, the form of money deposit, can not provide enough opportunities in the accumulation of capital.

When lending money is spent on acquisition of financial assets, it delegates its responsibility to financial money to serve as a means of savings as far as financial money can do it more efficiently and diversely. The economy created a complex system of credit forms of payment. All financial and credit institutions are involved in this system. Instruments of payment are the obligations and requirements of these institutions, such as bills, commercial bills, checks, and perpetual term deposits, government securities, stocks and financial and non-financial corporations bonds, mortgage lists, insurance policies, pension funds securities, mutual insurance banks, credit unions, brokers, dealers and others.

Various attempts to understand the essence of money are not finished. It should be noted that there are other interesting scientific interpretations of this problem[5].

## Conclusions

We can note the diversity and complexity of monetary nature having examined the basic views on the essence of money. Money is in constant evolution, its development is not straightforward and has a recurring character. Attempts to transfer patterns of well-studied forms of money in their present understanding can not be very successful. Moving, dynamic nature, variability, transition from one dominant traits of money to another, do not give an opportunity to understand their essence in whole. From the first emergence of goods production and to the present time there were some significant changes. Loan nature of money replaced the commodity nature. Money took on features of the capital cost. However, there is an information component in the substance of money. In spite of the fact that the essence of money is a complex phenomenon, it is fully cognized. A universal definition of money, in our opinion, does not exist as well as an ideal form of money. In fact money is the basis of their ability to be a repository, concentration of value equivalent, an instrument of economic relations between people and a mirror that reflects all the contradictions of our society.

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