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Abstract

Distinguishing between the money that functions in the world market and the money that functions internally in an economy has troubled many theorists. This paper is informed by the Marxist approach to money in general and world money in particular and argues that the theoretical difficulty derives from a fundamental misconception with regard to the forms of money. Consequently, the paper offers an analysis of the forms of money and shows that a new form emerged as early as 1914 associated with the world market, which might be called quasi-world-money, such as the US dollar. The analysis provides a framework within which to comprehend the residual but essential role of gold in parallel to quasi-world-money. The framework also allows for money convertibility to be redefined appropriately.

Keywords: forms of money, quasi-world money, gold, convertibility, USD

JEL codes: B51, E40

1. Introduction

It is apparent that there is a problematic around world money that has emerged in the twentieth century. The money that performs in the world market cannot fit in any of the mainstream approaches as a function of money, for it doesn't emerge from any barter like process, nor is it the product of any world state, since there is no such thing. Although world money *as a function* cannot ensue from any mainstream line of reasoning, world money *as a form* cannot be bypassed. Even in the current post-Bretton Woods period, the form of world money is apparent. Most theorists would agree that this is the US dollar. The introduction of the Euro gave birth to a huge literature on the role of the Euro as a rival to the dollar in this field (Jonung and Drea, 2010), but the field is not clear. Names have been given to it that attempt to describe the function, rather than the form. Therefore, in the case of world money, although as a function it is not acknowledged at all, as a form it is inevitably imposed in textbooks and the theory.

On the other hand, in the Marxist tradition, world money is acknowledged as a distinct function and form of money. Nevertheless, the evolution of both that has occurred in the 20th century has been poorly analyzed by authors that adopt Marxism, most of which consider the theory problematic. In short, the problem is considered to be that Marx's theory of money requires money to be a commodity, gold, and this is not the case in contemporary capitalism. Therefore, according to some authors, the theory "does not apply to the current monetary regime of non-commodity money (e.g., Lavoie 1986)" (Moseley, 2005, p.5). Lately, a quest has been launched for revising the theory accordingly (Fleetwood, 2000; Kennedy, 2000; Bryan, 2003; Clarke, 2003; Bellofiore, 2005; Foley, 2005; Nelson, 2005) and in some cases, completely (Benetti and Cartelier, 1998). Another strand attempted to argue that, according to Marx, money doesn't have to be a commodity (Williams, 2000; Milios, Dimoulis and Economakis, 2002; Moseley, 2005; Reuten, 2005) or that the theory itself implies the displacement of commodity money (Fine, 2003).

The perception of the form of commodity money being separate from and incompatible with the other forms of money is characteristic in Fleetwood (2000).

> "Arguing that money is not only a commodity, but that for social and historic reasons money is gold, invites two interpretations. The first interpretation accepts the observation that the contemporary capitalist system is dominated by credit, *fiat*, electronic, and various other forms of non-commodity money, and, therefore rejects the argument that money is a commodity, on the grounds that this argument flies in the face of reality" (p.189, emphasis in the original).[1]

What does this passage tell us? On the one hand, money may assume many forms, but for some reason, if it assumes non-commodity forms it cannot assume the commodity form at the same time. Credit, fiat, electronic etc. moneys can co-exist as long as gold is rejected. And if these forms are dominant, then money cannot be a commodity. This argument is logically weak and doesn't reflect reality, but may reveal the theoretical problem.

Although the above approaches are quite diversified and, in some cases conflicting, they share two arguments that are relative to the matter at hand. First, they consider that money must assume predominantly the commodity form and that the other forms of money, if they are acknowledged as other forms and not as

[1] The second interpretation, that money has been negated altogether, has been discussed above.

mere symbols, should all be institutionally anchored to gold (Germer, 2005). Second, they start from the conviction that money does not assume the commodity form "anymore", that is after the mid-1970s. This so self-evident that they do not feel the need to support it with any fact other than the non-fixed exchange relation between gold and the dollar (see, for example, Foley 1998).

Yet, both premises are invalid. Many authors acknowledge the multiplicity of the forms of money (Vilar, 1976; Arnon, 1984; Bryan, 2003; de Brunhoff, 2005[2]; Campbell, 2005; Lapavitsas, 2005; Itoh, 2006; Ivanova, 2013). Money assumes even more forms today and they should be studied systematically; while some of the old persist and some others have perished. Commodity has never been the content, definition or nature of money as Germer (2005) maintains[3], but commodity money has been one, essential though, form and it has never ceased being one (Lapavitsas, 2005).

The paper follows the line of reasoning that has been developed by Lapavitsas (1991) in reference to the relation between functions and forms of money, focusing though on the form of world money. The emergence, definition and functions of money in general are adequately discussed for the purposes of this paper (apart from Marx, 1976, see Itoh and Lapavitsas 1999). There is no problem with commodity money not being in circulation; that has been answered theoretically and in practice. We also know that this form will always lie in wait for a period of turmoil to reappear, even in the field of circulation and the current crisis has already provided with similar signs. Moreover, money assumes many forms all of which are real; if they stop being real, they stop being forms of money. The multiplicity of forms of money fits perfectly well in the Marxist theory of money, to the degree that the forms are, first, related to the functions of money and second, interrelated. Therefore, the transformation of one form to another is essential and convertibility as a term that captures the transformation of all non-commodity forms to commodity money should be examined. Finally, the form of world money has definitely changed and it should be questioned what exactly has changed.

All the above have been formed exceptionally in a question by Itoh (2006)

> "[…] we have to ask how it has been possible for the US dollar to expand its role as world (universal) money in the world market despite being delinked from commodity money (gold) and without having been formally accorded the status in international markets of forced currency, which it has in the US domestic economy" (p.110).

The next section presents the basic forms with which late 19th century capitalism is confronted. These will be the basis for new forms in the course of the twentieth century. One of these, namely the form that functions in the world market, will be examined closer. The last section deals with the so-called convertibility, which is perceived here more as an expression of the links between various forms of money, although the relation between all non-commodity forms with commodity money received publicity. Convertibility will be treated thoroughly because it can be revealing of features of the new form of money.

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[2] "Money was seen as being able to assume a variety of forms, depending on the different functions it would be fulfilling in a given space of circulation" (de Brunhoff, 2005, p.211).

[3] Commodity, its dual nature as use value and value, and the contradiction between the two, are the logical origins of money which emerges as a form of value; the most developed one.

2. Forms of money, old and new

2.1. The basic forms of money

Money does not assume only one form in each epoch, since this is not possible anyway: no one form can perform successfully all functions and one form may perform multiple functions (Arnon, 1984). Marx (1980; 1989) went into detail to show that the determinations of money contradict with each other; therefore the forms that they dictate will contradict as well. As measure it is carrier of value, spontaneous and ideal, while as standard of price (unit of account) it is a numerical scale of a real standard which assumes names established by law; as means of circulation, it is symbolised and valueless; as hoard it is whatever the scope of hoarding dictates it to be, but it needs to be both a carrier of value and something that is ready to enter circulation, both valuable and valueless; as means of payment it is whatever is considered as hard cash, while the circulating obligations are anything but hard cash; as world money it is in a form that a heterogeneous and fragmented world market recognises. It is evident that no form can satisfy all these properties at the same time.

Beforehand, two distinctions should be made. First, there should be distinction according to the level of abstraction, between forms of money and their embodiments, or representations, or concrete forms. In that sense, commodity money is the form, and it might be embodied in gold bullion or silver coin. Concrete forms are abstract forms themselves, since there is not any gold coin, but Sovereigns, Krugerrands etc. The same holds for credit money that may take the concrete form of a (convertible) banknote or that of a check. Especially in relation to credit money, a second distinction should be made according to the level of credit that generates the corresponding form, these being commercial credit, banking mediated credit and state guaranteed central bank credit[4]. Each layer will have various embodiments, some of which similar and some others varying a great deal.

On the eve of imperialism, in the late 19th century and definitely before WWI, the basic forms of money were three, namely commodity money, fiat money and credit money[5]. Commodity money was either gold or silver (Bordo, 2003)[6], but everywhere in the concrete forms of coin and of bullion or specie. Coin was appropriate for circulation, while bullion was more appropriate for all the functions of money as money.

The labour power and the means of production that are consumed in the production of gold as an instrument of circulation, in the concrete form of coin internally and of bullion internationally, are a burden for the capitalist mode of production, part of the latter's *faux frais*. This is an "expensive machinery of circulation", the decline in the expenses for which raises the productive force of social labour (Marx, 1978, p.420).

Unhindered transformation, or convertibility, between the two concrete forms, through coinage or minting and melting, was reflecting the fact that they were concrete forms of the same nature and it was

[4] See Bell (2001) for an approach of the hierarchical tiers of money.
[5] The presentation draws on Vilar (1976), Arnon (1984), Lapavitsas (1991) and Bruce and Shafer (2000).
[6] The debate on bimetallism is not relevant for the matter at hand of this paper; suffice it to say that gold and silver are moneys of the same form, namely commodity moneys.

establishing their exchange relation. Transformation either way was taking place when coins were considered either overvalued (minting) or undervalued (melting) when their metallic content was compared to their purchasing power (Weber, 2003)[7]. Note that bullion is more immune to contestation of its content compared to coin. The reason lies at the symbolising feature that the coin acquires in circulation.

Coin contains the contradiction for its evolution into a mere symbol of itself. First, full carrier of value coins can realise a sum of prices that is dependent not only on their metallic content but also on their velocity. If this velocity is higher than one, that is, in the unit of time, the same coin can realise more than once the price of which it is equivalent, then the coin becomes immediately in circulation symbol of higher value than it is carrying. This will be the case because precious metals are almost indestructible, so whatever the unit of time, in its (long) life a coin will realise a sum of prices that is much higher than the value it stands for.

The second contradiction comes from its natural properties, and especially its being *almost* indestructible. As a matter of fact, precious metals are not totally indestructible and therefore coin clipping occurs naturally after its continuous passing from hand to hand, without and before any conscious debasement. This process of clipping is additive to the previous; namely, the same full carrier of value coin is realising the value it stands for many times before it is apprehended that its content has already been reduced. When this happens, the expected reaction would be to get rid of the clipped coin as soon as possible without any premium, namely to pass the loss to the next holder. Yet, this passing has already happened and it is of secondary importance whether the previous holder used the clipped coin knowing that it was clipped.

If this can happen without any fraud interfering, then fraud is exactly what will emerge. The first form of fraud is the more or less systematic debasement of the coin which leads to its overvaluation; yet, it has been proven historically that debased coins can function in circulation for quite some time before they are treated as overvalued. The opposite reaction was the issuance of pure symbols of as low value as possible which were supposed to represent coins and were convertible to gold (coin or bullion) at will, until again the fraud of over issuance was proven.

Turning to bullion, this concrete form is useless to circulation, but it is ideal to preserve value, as well as to make large payments, domestically and abroad. As a hoard, it may come from various sources but it always ends to where it came from: underground. As a means of payment, it clears balances, nationally or internationally. The issue of transferring it is the most problematic with these payments. The risks were always very high and there are many stories, movies and other evidence about the adventures that are related to the transfer of gold bullion and which include all sorts of sneaky enemies like more or less sophisticated train bandits, Indians and revolutionaries, pirates, as well as the weather. With the evolution of other forms of money, especially credit money, payments have been reduced in number and risen in value; the risk could not be eliminated.

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[7] "With free coinage, the public handed in gold bullion for coinage at the mint, which charged a fee for minting costs (brassage) and often a seignorage tax" (Weber, 2003, pp.64-65).

The best solution to the immense problem of transferring bullion was to switch labels on stockpiles signalling thus the change in the property of the stockpile. In this case, gold bullion is not actually transferred, but the payment is made. There are two corollaries drawn from this practice. First, gold bullion as a concrete form is so strongly attached to vaults that it doesn't take part with them, even in the case that it does change hands. Second, gold may fulfil much more payments when physically immobile than being tossed about by the sea. In all cases, it is impossible to distinguish between bullion being hoarded and coming out of hoard for payment. It all seems hoarded all the time.

Nevertheless, this arrangement is not solving completely the problem because the vaults are in particular territory subject to confiscation in times of upheaval, which in capitalism are not so rare and they are definitely not predictable. The world economy did not manage to solve this problem permanently and gold is even today subjected to the test of travelling, when necessary[8].

To conclude thus far, commodity money has two concrete forms that differ a good deal, yet, they are both negated in the course of their functioning. Bullion is ending immobilised in national vaults because it is suitable for world money. Full value carrier coin is generating its symbol, the no value carrier coin, and it is exiting circulation.

Valueless medium of circulation necessitates an issuer and guarantor of the exchange relation between the symbolised and the symbol. Hence, fiat money is the product of commodity money in circulation which takes the concrete form of coin. The coin itself becomes a slippery form between commodity money and fiat money, at least until the end of the 19th century, and the transformation (minting and melting) was the mechanism of controlling that a gold coin was, and to which degree, a concrete form of commodity money and not one of fiat money.

State issued "paper" money is the most developed form of fiat money and it is legal tender by definition. It is striking because it seemed to be able to represent value only with the seal of the state. Fiat money is a logically derivative form that becomes independent[9] much earlier than the 19th century, although it is out of the scope of this paper to trace back its historical origins which seem to be lost in time (Innes, 1913).

Fiat money is often confused with credit money. The reason is their superficial resemblance as "paper money", especially between state paper fiat money and banknotes, although paper is not the only material with which both forms of money have appeared historically[10]. Moreover, the easiness in issuing more symbols has been mistaken with credit expansion. The result was the conclusion that all money is either credit money or symbolic. Nevertheless, "fiat money presupposes no credit relations" (Lapavitsas, 1991, p.304).

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[8] The story of the gold transfer of Venezuela from various European and US banks, mainly from London and New York vaults, in 2011 is revealing. See the press of the time, e.g. Farchy and Mander (2011), Salmon (2011), Central Banking Newsdesk (2012) and Steen (2013). Less known is the case of the Iranian gold repatriating from Switzerland in 2005 (Steen, 2013).

[9] Lapavitsas (1991) makes this point explicitly, in response to de Brunhoff (1976) who argues effectively that fiat money is not real money.

[10] Bruce and Shafer (2000) provide an extensive and very informative catalogue of what they call "world paper money". Various forms of money are listed there as long as they are made out of paper. For example, gold certificates are side by side with legal tender banknotes (p.1128).

The form of credit money does emerge from commodity money in a more complex and intermediated way. Credit money emerges from the separation in space and time of the purchase and the realisation of price; the latter presupposes a sale. This separation leads to the formation of a contract that establishes the obligation, and to the circulation of that contract as money. In discussing the necessity and the potentiality of the crisis, Marx (1982, pp.591-598) examines again the metamorphosis of the commodity and the reasons for the separation of the sale from the purchase. He argues that the difficulty lies in selling.

> "The difficulty of the seller [...] only stems from the ease with which the buyer can defer the retransformation of money into commodity. The difficulty of converting the commodity into money, of selling it, only arises from the fact that the commodity must be turned into money but the money need not be immediately turned into commodity, and therefore *sale* and *purchase* can be separated[11]" (p.593, emphasis in the original).

Therefore, the emergence of credit money presupposes the existence of money in some other form, since the latter permits the appearance of the conditions for the separation between the sale and the purchase[12]. Credit money emerges as a promise to pay an amount of money at a later point in time; by definition, money must assume a form other than credit money, in which credit money will be exchanged when the time is due; in the opposite case it would be a promise of never-pay. From this fundamental feature of it being a promise to pay, credit money is doomed to return to the hands of its issuer and this cyclical path has been defined as the "Law of the Reflux" (Hilferding, 1981).

This process originates in the relations between merchants. This credit money takes the concrete form of merchant's bill of exchange (Lapavitsas, 2000). It doesn't function as means of exchange, because it is in large denominations and of low acceptability. Normally it circulates in the sector and in general in the range of the (commercial) relations of the holder.

The imperfections of this form lead it to the bank, which exchanges it for a note of herself. This raises the range of acceptability to that of the bank. The major concrete form for our purposes is the banknote, which emerges directly from the commercial bill, since it is issued in exchange for the latter. The next, almost equally important, concrete form is the bank deposit that operates upon another medium, like the cheque[13] or, in modern times, the electronic card. The multiplicity of the concrete forms of bank credit money is country specific (see Bruce and Shafer, 2000).

The banknote has various issues that are renewed upon expiration. The duration of each issuance is always larger than that of the commercial bill and fluctuates depending on various circumstances, wars,

[11] "Η δυσκολία του πωλητή […] προέρχεται απλούστατα από την ευκολία του αγοραστή να αναβάλλει την επαναμετατροπή του χρήματος σε εμπόρευμα. Η δυσκολία να μετατραπεί το εμπόρευμα σε χρήμα, η δυσκολία να πουληθεί, προέρχεται μόνο από το γεγονός ότι το εμπόρευμα πρέπει να μετατραπεί αμέσως σε χρήμα, ενώ το χρήμα δεν χρειάζεται να μετατραπεί αμέσως σε εμπόρευμα, από το γεγονός δηλαδή ότι η *πούληση* και η *αγορά* μπορούν να χωριστούν η μία από την άλλη." (Marx, 1982, p.593, emphasis in the original) Translation taken from <http://www.marxists.org/archive/marx/works/1863/theories-surplus-value/ch17.htm> [Accessed 11 December 12].

[12] Marx moves on arguing that this separation is in the basis of the characteristic form of money crises (ibid, p.599).

[13] The bank deposit operating upon by cheque was the main shape of credit money in England, since and because of the restrictions of the Bank Act of 1844, "The essence of that system is that purchasing power is largely in the form of bank deposits operated upon by cheque, legal tender money being required only for the purpose of the reserves held by the banks against those deposits and for actual public circulation in connection with the payment of wages and retail transactions. The provisions of the Act of 1844 as applied to that system have operated both to correct unfavourable exchanges and to check undue expansions of credit" (Cunliffe Committee, 1997, p.167).

revolutions etc., but tends to expand. They are introduced initially in large denominations as an exchange for large commercial bills that emerge from import or export transactions between correspondent firms. Since banknotes were issued with the imprint of the obligation to be exchanged with gold, either at any time or upon expiration, and since they were actually exchanged for gold in various instances of their lives, the expansion of credit was meeting thus an abstract and general barrier to its expansion in the available quantity of the metal.

Bank credit money functions as money although imperfectly, limited by the geographical range of transactions of the particular bank, the usually large denominations of credit advanced and the persisting uncertainty of the viability of the bank. The necessity for overcoming these limitations led to competition that designated the queen of all banks, the central bank. After all, banks are capitalist firms and need their bank as well. Finally, the state, to the degree that is formed under the modern standards, needs its bank[14].

Central banks are not there from the beginning; they are a historical product of the evolution of capitalism. The Federal Reserve System was established just one year before the outbreak of WWI, in 1913; the Swiss National Bank was established in 1907; the Reichsbank was established as the central bank of Germany in 1876, while the Bank of Japan in 1882. The Banque de France was established in 1800, but it took it a while before becoming the central bank of France. Similarly, the Bank of England was established in 1694, but should be considered to have assumed full responsibilities of a central bank much later. In all cases, either a newly established or an existent bank resumed the role of a banker's bank and a government's bank (Itoh and Lapavitsas, 1999).

With the establishment of the central bank, commercial banknotes are exchanged with central bank notes, in a proportionate manner that commercial bills had been previously exchanged with banknotes. Hence, banknotes see their acceptability risen to the range of the central bank, which is the whole nation.

It seems that the issue of the limitation imposed on the expansion of capitalist production by the form of money was already present in Marx's era. Marx (1978) was considering the production of precious metals as imposing barriers to the reproduction of capital that are overcome by the credit system.

> "Thus in as much as the auxiliary means that develop with credit have this effect, they directly increase capitalist wealth, whether this is because a greater part of the social production and labour process is thereby accomplished without the intervention of real money, or because the capacity of the actually functioning quantity of money to fulfil its function is thereby increased.
> This also disposes of the pointless question of whether capitalist production on its present scale would be possible without credit (even considered from this standpoint alone), i.e. with a merely metallic circulation. It would clearly not be possible. *It would come up against the limited scale of precious-metal production*" (p.420, emphasis added).

This contradiction between the finite limits of the volume of production of gold and the infinite, or at least very elastic, limits of credit expansion is proven to be essential. Ivanova (2013) makes this point, although underplays its importance.

[14] For the elaboration of this argument see Itoh and Lapavitsas (1999). McKinnon (1979) had already implied this approach when he stated that a "central bank may also be considered "the government's banker" and the regulator of domestic credit markets" (p.27).

All these concrete forms, in each country were using the same standard of prices (unit of account) which comprises a name, a standard and a numerical system. This standard is purely conventional, that is socially determined. The unit of account provides the umbrella to various forms and concrete forms but it is neither; like the name that denotes little of the person. The same name is given to different forms of money, while, at the same time, many different names are used to express the same form. In good part, the money confusion arises from its names[15]. In the context presented above, the commercial bill in dollars and in yen are both first level credit money, namely moneys of the same form and same concrete form. The issue is contrasted with statements like the following

> "At present the dollar, the euro and the yen are the main *forms* of money serving as units of account, means of circulation, means of payment, and reserve funds in the world market, with the dollar still dominant" (Smith, 2005, p.222, emphasis added).

The main question is to examine exactly which forms satisfy today the function of world money, irrespective of the "cabalistic signs".

2.2. The new form of money: quasi-world money

We have discussed the various forms and the concrete forms that dominated the domestic and international market roughly until the outburst of WWI. Yet, modern money doesn't fit to any of the above. It is not commodity money, neither symbol of the latter with legal tender, namely it is not fiat money, nor credit money of any level. A closer examination of that form of money reveals immediately that it is *central bank credit money declared as legal tender*. This is an alloy form of money that enhances the properties of credit money with those of legal tender (Lapavitsas, 2000; Smithin, 2003; Weber, 2003)[16] and consists a new *form* of money. Evidently, this new form cannot exist before the establishment of the central bank. New money is produced by the bank of the banks, with the trustworthiness of the state, rather than the mere enforcement of the latter (Papadatos, 2009).

The process of issuing the new form is of importance here. Money is issued by the central bank and enters circulation for the first time as a deposit of the state in a commercial bank. In all cases, the new form is not backed up by a commodity, and therefore does not have the quantity limitations that this anchoring would impose; it is a claim on a specific financial institution, the central bank, backed by the national

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[15] Marx was very insightful when he stressed that "[t]he name of a thing is something distinct from the qualities of that thing. I know nothing of a man, by knowing that his name is Jacob. In the same way with regard to money, every trace of a value-relation disappears in the names pound, dollar, franc, ducat, etc. The confusion caused by attributing a hidden meaning to these cabalistic signs is all the greater, because these money-names express both the values of commodities, and, at the same time, aliquot parts of the weight of the metal that is the standard of money. On the other hand, it is absolutely necessary that value, in order that it may be distinguished from the varied bodily forms of commodities, should assume this material and unmeaning, but, at the same time, purely social form" (Marx, 1976, p.195).

[16] "Contemporary bank-issued credit money bears the strong imprint of the state through links of the latter with the central bank" (Lapavitsas, 2000, p.647). "The ultimate asset will continue to be the nominal liabilities of central banks backed by the coercive and legislative power of the state" (Smithin, 2003, p.33). "An important consequence of central banking is that the gold standard can be suspended by giving paper money legal tender status (Weber, 2003, p.66).

reserves. "[…] [T]hese banknotes [of the central bank, GL] thanks to legal regulation, enjoy an intermediate position between state paper money [fiat money, GL] and credit money" (Hilferding, 1981, p.66)[17].

The emergence of the new alloy form in the national market rests thus with the central bank note, which becomes gradually and inevitably the best concrete form of all credit money, even without legal tender. For the central bank note to become the king of all concrete forms of credit money several preconditions should be met. The central bank should gradually collect the national reserves, so that this concrete form was the most solid in terms of its convertibility with gold at face value, whenever necessary. Issuances should be prolonged and denominations should become lower so that the banknote could embrace a greater range of transactions and practically apply for circulation. Finally, the state was giving the central bank the luster of the bank that doesn't fail, although that is only a gloss. Legal tender confirmed something that was already known; that the central bank note was as good as gold in good times and something to live with in bad ones.

The new form appears for the first time in 1797 with the Bank Restriction Act, that made the banknotes of the Bank of England inconvertible; it was issued on the 3rd of May of that year and was supposed to expire by the 24th of June, but lasted until 1821 (Vilar, 1976). Vilar (1976) explains eloquently, and in accordance to the framework applied here, why there was no panic accompanying the monetary evolutions of 1797, as it was the case for Law's experiments and the *Assignats*, which were pure fiat money. This happened because "[…] English paper money was not issued by the state, but remained 'bank notes'" (p.315). "[…] bank paper in England was far from being a simple token of money, and was much closer to being a form of credit-money" (p.311).

The restoration of the old form came with vengeance with the establishment anew of an official peg of the pound in May 1821, the dominance of the Currency Principle and, finally, the Banking Act of 1844. As soon as the banknote of the Bank of England managed to stand independent of gold with the enforcement of the state, it was degraded forcibly not only to a concrete form of bank credit money that it was before 1797, but to a mere token of gold. The new form is not established as such in the UK until the outburst of WWI although all the preconditions were already in place. A very interesting narration of the way the new form was born during WWI can be found in the Cunliffe Committee Report (1997) and is worth quoting at length.

> "[...] Contractors are obliged to draw cheques against their accounts in order to discharge their wages bill—[...]. It is to provide this currency that the continually growing issues of currency notes have been made. The Banks instead of obtaining notes by way of advance under the arrangements described in paragraph 9[18] were able to pay for them outright by the transfer of the amount from their balances at the Bank of England to the credit of the currency note account and the circulation of the notes continued to increase. The government subsequently, by substituting their own securities for the cash balance so transferred to their credit, borrow that balance. In effect, the banks are in a

[17] De Brunhoff (2005) states that "[c]redit money issued by banking systems is the form of money in modern capitalism" (p.213). It is worth questioning how a shrewd eye like hers did miss the contribution of the state.

[18] "[...] the Treasury undertook to issue such notes [currency notes for one pound and for ten shillings as legal tender throughout the UK, GL] through the Bank of England to bankers, as and when required, up to a maximum limit not exceeding for any bank 20 per cent of its liabilities on current and deposit accounts. The amount of notes issued to each bank was to be treated as an advance bearing interest at the current Bank Rate" (Cunliffe Committee, 1997, p.168).

> position at will to convert their balances at the Bank of England enhanced in the manner indicated above into legal tender currency without causing notes to be drawn, as they would have been under the prewar system, from the banking reserve of the Bank of England, and compelling the Bank to apply the normal safeguards against excessive expansion of credit. *Fresh legal tender currency is thus continually being issued, not, as formerly, against gold, but against government securities*" (p.169, emphasis added).

The new form of money is the form of all contemporary moneys where capitalist relations are expanded in depth. But the most interesting part of the story comes next. This alloy form of money managed to go out of *some* national borders and to appear in the world market which seemed impossible in the beginning of the century (Hilferding, 1981)[19]. The need for the function of world money arises exactly from the fact that money cannot break the domestic limits in any way other than to assume the form of world money. Therefore, there appear not one, but two peculiarities. First, domestic (credit with legal tender) money manages to achieve acceptability in the world market and second, this is a property of the moneys of specific nationalities. In other words, some national moneys manage to learn easier than others the universal price language of commodities.

A more thorough look will immediately reveal that these moneys are no others than the ones suggested by Smith (2005) with the US dollar showing off first in the list; the Euro comes second, taking over the sceptre from the DM and carrying some colonial French essence; the British pound is the indisputable predecessor of all and apart from the glory of the past, reminds the world where the City is located; the Yen has its share, the small size of which is not the only peculiar issue about the Asian imperialist.

Therefore, only the central bank credit money declared as legal tender by a state of leading capitalist economy can exit the borders. This is the form of money that has appeared in the literature under different names. The most commonly used name for this form of money is "international reserve currency" (Plaschke, 2010) which contains a minor supererogation, but is chiefly *contradictio in terminis*. The supererogation lies in the fact that there is no national "reserve currency", while the contradiction lies between the hoarded, immobilised "reserve" and the flowing "currency". Obviously the term attempts to capture the underlying functions that this form serves, rather than the form itself[20]. This confusion of the form with the functions that it serves is clearer in the term "international means of payment" that also appears in the literature[21]. McKinnon (2005) addresses the dollar as world money, and in particular the "world's dominant money" (p.478) which is much closer to the approach taken here but leaves little room for other moneys of the same nature[22]. I accept the term "quasi-world money" which was originally coined by Makoto Itoh (Lapavitsas, 2013), as the most appropriate, among the available ones.

[19] "In reality, however, such a system of paper currency is impossible. In the first place, this paper money would be valid only within the boundaries of a single state" (Hilferding, 1981, p.57).

[20] McNamara (2008) admits that explicitly in the following quote: "I define key currency broadly, as the currency that dominates across a variety of functions […]" (p.441).

[21] There are also variations of the term that imply the direction of the solution proposed. For example, Fields and Vernengo (2011) use the term "hegemonic (international) currency" and Ivanova (2013) characterises the US dollar as both a "national fiat currency" and a "key international currency".

[22] "[...] a single world money for clearing international payments, setting exchange rates, and invoicing trade and capital flows [...]" (McKinnon, 2005, p.485). Interchangeably, McKinnon (2005) uses the term "international money".

With quasi-world money, a non-commodity form manages to break the national borders for the first time in the history of capitalism. To be exact, both fiat money and especially some concrete forms of mostly London based credit money could pay in the world market, but only in special cases and temporarily; gold bullion was lurking behind them. "Most circulating currency has been virtually "fiduciary" [...]. Such money, which depended on the domestic conditions of the country where it circulated *could never be confused with the international currency*" (Vilar, 1976, p.344, emphasis added). For this novelty, both aspects of the new form played their role, namely both the central bank and the state of particular countries, but the latter is decisive.

Fiat money or some other concrete form of credit money, even of major capitalist country, had never showed before any particular capacity in breaking their national limits. On the other hand, although the necessity of the form in the national level comes from the evolution of the forms there, its exit in the world market doesn't seem to be enforced by any internal logic of the evolution of the form. The process of internationalisation of domestic money is historical and goes hand in hand with the evolution of capitalism, but is dependent upon the form of money. In short, it is argued that this alloy form is logically produced internally and seems the only one that could do the job in the world market, but its exiting the borders doesn't accrue from the nature of the form. In the opposite case, all national moneys of the same form would have done the same. If for the emergence of the new form in the national market, the central bank was the pivot, for its exit in the world the state, with the economy that stands behind it, seems to be all that matters. There is a strong imprint of nationality in quasi-world money that was obtained historically.

The internationalisation of capital is very relevant to the matter at hand (Ivanova, 2013) According to Lenin (1964), the potentiality for capital to export is created by the fact that a series of peripheral countries have been pulled to the trajectory of global capitalism. The need for exporting capital, Lenin continues, derives from the evolution of capitalism that leads to the concentration of masses of capital that can find no (profitable) place under the sun in their homeland and seek a better future abroad. Finally, the export of capital enhances the export of commodities (ibid). It would suffice to note that the importance of the export of capital has risen in the capitalist world in the course of the 20th century and that this export is made in all forms, but inevitably, if in no other, in the money form.

With its exit in the world market, from the outset, quasi-world money competes with gold. From WWI until the collapse of Bretton Woods it is a transitory period where the two forms coexist, alternate, bent one on the other or exclude one another. The difficulties are more evident in the first years, in the interwar period, but persist in the two decades following WWII. Both world wars "helped" the strengthening of quasi-world money by deifying gold; the latter was concentrated in the central banks during the first war and in the central bank of the US, in particular, in the second. In general, quasi-world money is gaining ground to the degree that capitalism is evolving and establishing its economic laws and institutions. The collapse of Bretton Woods marks the smash of the golden fetters of quasi-world money and the beginning of a new era in the IMS.

On the other hand, money never stopped assuming the form of gold, in all concrete forms. The initial inarticulate shouts against the monetary nature of gold, so much necessary for the first steps of quasi-world money, were defused after a few symbolic auctions of the US gold and a clause in the 1976 amendment of the IMF prohibiting the Fund's members to peg their currencies to gold.

> "Historical reality is again and again caricatured by saying that gold is the currency of a former age; that it has nothing to do with modern money. Historically speaking, nothing is further from the truth, as neither gold or silver was ever the only form of "money". [...] The main novelties of the past thirty or forty years have been the spread of payment on account, of "book money, at the most everyday and popular levels; the rise of systematic "monetary policies", through which the state intervenes into circulation and credit; and, since the end of the Second World War, the acceptance of certain national currencies, mainly the dollar, as the basis for international payments, and the stability imposed in the ratio between this currency and gold, whatever the variations in the conditions of production of the latter" (Vilar, 1976, p.344).

The collapse of Bretton Woods was marked by Nixon's declaration with which the US ceased the obligation of the Fed to exchange foreign held US dollars for US gold. Time is appropriate for a full discussion of convertibility.

3 Convertibility

Convertibility is a historical term, but it is still not well defined. For example, Fazio (2000) reproduces in a typical phrasing a threadbare perception of what happened on the 15th of August 1971, in terms of "convertibility".

> "The suspension of the dollar's convertibility on 15 August 1971 officially cut the link between legal tender and gold — an epochal change after more than two thousand five hundred years during which money had always been based explicitly or implicitly on a precious metal, prevalently gold" (Fazio, 2000, p.17).

Taken literally, the approach of the ex-governor of Banca d'Italia is unhistorical. The link between legal tender and gold was officially cut for most countries in WWI. During the Bretton Woods, gold coins were not carrying any legal tender, while gold bullion had never, to my knowledge, acquired the feature of legal tender. Moreover, in Fazio's mind, money was always based on a precious metal, implying thus that he doesn't recognise credit money at all.

A very insightful analysis and definition of convertibility is provided by McKinnon (1979). McKinnon recognises and reveals the above controversial aphorisms that were present in his time. He argues that "convertibility can be defined independently of the exchange rates with foreign currencies that a government may be obliged to maintain (p.6) and he provides the following working definition:

> "A currency is *convertible* if: Domestic nationals wishing to buy foreign goods and services, not specifically restricted, can freely sell domestic for foreign currency *in a unified market at a single but possibly variable exchange rate covering all current transactions* inclusive of normal trade credit; whereas foreigners (nonresidents) with balances in domestic currency arising from current transactions can sell them at the same foreign exchange rate or purchase domestic goods freely at prevailing domestic-currency prices" (ibid, first emphasis in the original, second one added).

McKinnon provides this definition in order to deal with earlier conceptions that "attached an official obligation to maintain a par value in the rate of exchange between domestic currency and foreign money" (ibid); moreover, he provides it at the outset, considering it fundamental to his analysis. I will have to elaborate further McKinnon's seminal approach, in order to make it compatible with the terminology used here, keeping though the gist of his argument. For this purpose, it is necessary to examine closer Fazio's assertion and reveal the conventional wisdom behind the notion of convertibility.

In terms of this paper, by convertibility one refers to the ability of a non-commodity form to transform into the money commodity. Yet, it is not always clear if this non-commodity form refers to fiat, to some concrete form of credit money or to quasi-world money. If reference is made to fiat money, as it was the case in the 19th century, then it should be examined what concrete forms fiat money assumes today. Legal tender has been attached to central bank credit money, so fiat should be expected to be truncated to the degree of mutilation. Although it is out of the scope of the analysis to expand in modern concrete forms of symbolic money, it seems that the best is that of electronic gold like Digital Gold Currency, e-gold, GoldMoney or other (Jackson, 2000; Capie and Wood, 2001). These concrete forms are quite interesting and demand further examination, but convertibility applies directly and smoothly in this case, with the everlasting dual problem of the symbol, namely the issuer and her issuing policy. These symbols are highly divisible to the milligram and 100 percent backed by gold (Capie and Wood, 2001).

> "These are payments system in which payments are made on the internet completely backed by gold or, in the case of e-gold, other precious metals. A quantity of e-gold or, in the case of GoldMoney, GoldGrams, constitutes title to a precise weight of the physical metal which can be used to purchase goods and services. The actual gold is held in a bullion vault and does not move but ownership changes as purchases are made" (ibid, p.31).

Convertibility should refer to the necessity of the new form of money to convert into gold; otherwise it is of low importance. Indeed, any *form* of money should be able to transform to another, but this statement is not insightful. What should be said is that all *concrete forms* should prove their ability to be concrete forms of one or another form, by transforming to another concrete form. When one concrete form fails this test, the form is not necessarily damaged, but the concrete form disappears. The most prominent example is the banknote of commercial banks, the disappearance of which did not contest the existence of credit money of commercial banks; to the contrary, a boom of innovative concrete forms followed.

Therefore, we have established an essential issue related to convertibility; it should refer to convertibility between concrete forms of money. But, still, the features of this transformation are not given by denoting the two edges. More should be said on the process which lies in the following four interrelated features: the place where convertibility happens; the establishment of an institutional obligation; the actual potentiality that relies on the adequacy of reserves; and, of course the exchange relation[23]. It becomes evident that the discussion on convertibility should be specific in many aspects that are the responses to the following questions: between which concrete forms? Where? Is it obligatory? Does it happen? In which ratio?

Presumably, it is interesting to examine convertibility between quasi-world money and gold, in the concrete forms of the dollar banknote and the bullion correspondingly. In advance we may say that the two

[23] All these features, either explicitly or implicitly, can be found in McKinnon (1979) in more vague terms.

concrete forms are generally and easily convertible, but things have changed. The place, for one, has been changing. It used to be in the central bank after 1914; in the market after the early 1970s. McKinnon (1979) examines in detail the market mechanisms through which convertibility between national monies takes place and in particular, he sheds light on the interbank market and the functional role of the bid-ask spread. Very insightfully he argues that "if the bid-ask spread becomes substantial and the price of foreign exchange more uncertain, the international "moneyness" of domestic currency is reduced" (p.11). He doesn't though examine at all convertibility between gold bullion and a concrete form of a national money, either quasi-world money or other. Convertibility between the latter two forms was actually restored fully in the market with the collapse of Bretton Woods, raising the severe constraints that applied in privately holding gold from 1914. From this point of view, that convertibility was severed for all but the central banks in the period 1914 to 1971, and especially after 1944 and that was an arrangement unprecedented in capitalism.

The place, though, is dependent upon the second feature – obligation. There is no one today – state, central bank or other institution – that is obliged to convert US dollar banknotes to gold. McKinnon (1979) expresses that eloquently by noting that "an official parity obligation is *no longer* necessary for a currency to be considered convertible" (p.7, emphasis added). This is because the dollar is not issued against gold; from the outset, there is no obligation. This is reflected in a change of the printing of banknotes: they have no longer printed the motto "will pay here to the bearer on demand" that they used to in the late 19th century (Bruce and Shafer, 2000). There is no formal obligation, because there can be no formal obligation. Again, the period of Bretton Woods is peculiar since there was the obligation of the Fed to exchange dollars held by foreign central banks for US gold. The luster of the symbol was necessary for the new form to be established. From this point also, if there is something to be explained is the Bretton Woods arrangement and not its demise.

As for the actual potentiality, the adequate reserves have risen today to very high levels. For this, one should not be confined to the central bank reserves, but consider also the reserves in the bullion banks and private hoards. The gold market is one of the most liquid markets in the world, if not the most liquid one and there is hardly a case that gold faced difficulties in transforming into any other form of money in any country, let alone the US dollar banknote that can be transformed to gold as easy as no other concrete form.

The exchange relation finally has been subjected to a major, although not unprecedented, change[24]. As Weber (2003) puts it, "the public no longer has the right to exchange bank notes for gold *at a fixed price*" (p.67, emphasis added), while the right in general to exchange bank notes for gold has been freed after the collapse of Bretton Woods; this right is now more established than ever in the 20th century. The Articles of Agreement of the IMF were modified accordingly so that the IMF is guided, among others, "by the objective of avoiding the management of the price, or the establishment of a fixed price, in the gold market" (IMF, 2011, p.16).

[24] There is a historical precedent of altering the exchange relation of gold with another form and that is the era of the Bank Restriction Act (1797-1821) that has been presented above.

It is stressed once more that the highly regulated exchange relation between concrete forms of gold and of fiat or even of credit money is a different issue than the exchange relation between concrete forms of gold and of quasi-world money. From the outset, the exchange relation was not very successfully regulated, with the exception again of Bretton Woods. The quote from Vilar (1976) above reflects the peculiarity of the stable exchange rate. Apart from the stability of the exchange rate, a recent work by Weeks (2012) provides with insights as for the "nominal anchor" of prices, attempting to ground the link of gold with other forms of money.

Therefore, it is highly contested here that "national currencies severed their convertibility into gold [after the collapse of Bretton Woods, GL]" (Foley, 2005, p.42). The contestation can be visualised in the current crisis with the "we buy gold" shops that spring up all around the globe, including places like Paris and Berlin. Moreover, even before the crisis, all central bank notes could be exchanged for gold in their national markets.

4 Conclusions

The closer examination of the primordial form of money, the commodity form in the concrete forms of coin and later bullion, has made clear the process through which this form gives birth to its symbol, the most pure form of which is fiat money. On the other hand, the break of the sale from the purchase and the relatively better position of the buyer against the seller, due to the ability of money to preserve value against the commodity, gave birth to credit money. Not only credit money is bound to commodity money by definition, since it is a promise to pay the latter, but the expansion of credit money is constrained by the quantity of gold. This issue is of utmost significance for the emergence of a new form of money, the alloy form of central bank money with legal tender.

In all cases, and in all advanced capitalist states, the leading commercial bank was upgraded to central bank, entitled to issue the king of the bank notes and keep the hoards of the nation. That resulted in the demise of the commercial banknote, the diminution of hoards in all the lower layers of the economy and thus the economizing on gold almost fully in the domestic circulation, so that it would be freed to perform as world money, dominantly as bullion. The outburst of WWI allowed the acceleration of all these processes, the drastic collection of gold from domestic circulation and, later, the prohibition of holding gold in all the non-official layers. The new form prevailed domestically and gold was deified internationally.

What is interesting to stress is that, while central bank credit money declared as legal tender is a logical evolution of the previous forms of money, an evolution that we may observe in all states where capitalist relations prevail, only some national moneys of this kind managed to exit the borders of their domestic circulation. These were the moneys that were issued by major capitalist central banks and guaranteed by leading capitalist states. This observation indicates that the reasons and the paths through which this money managed to become finally quasi-world money should be historically imposed and closely linked to the evolution of capitalism. Indeed, money in the new form exited actually the borders of the country by lending its form or accompanying the exported capital, or through imperialist war related processes and intrastate flows of money.

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