

Real value of money - rethinking about its role in the economy

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ABSTRACT-

Money is the modern dominant mode of exchange and value measurement which has provided many benefits for humanity but there is some fundamental flaws in it. Austrian school of economics has exposed the monopolistic arbitrary money printing methodology of central banking which gradually erodes the true economic value of money. This is also the main reason behind the aberrations in the exchange value of the money vis-a vis nature (including humans). Money has become the dominant mode of exchange and value measure within the framework of market. It is the market mechanism which legitimizes its superiority to other modes of exchange. Ideally exchange value of a thing must be subsequent to the valuation of a thing. Then the question arises what can be the true value of a thing and does its exchange value always reflects its true value. More simply does real value of a thing is equal to its exchange value, should they be treated as the same? What can be the dangers of it? Once a thing has to be exchanged its worth must be defined in the market terms in a market dominated society.

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I. INTRODUCTION

Money is the modern dominant mode of exchange and value measurement which has provided many benefits for humanity but there is some fundamental flaws in it. Austrian school of economics has exposed the monopolistic arbitrary money printing of central banking which gradually erodes the true economic value of money. This is also the main reason behind the aberrations in the exchange value of the money vis-a vis nature (including humans). Money has become the dominant mode of exchange and value measure within the framework of market. It is the market mechanism which legitimizes its superiority to other modes of exchange. Ideally exchange value of a thing must be subsequent to the valuation of a thing. Then the question arises what can be the true value of a thing and does its exchange value always reflects its true value. More simply does real value of a thing is equal to its exchange value, should they be treated as the same? What can be the dangers of it? Once a thing has to be exchanged its worth must be defined in the market terms in a market dominated society.

Why we need the holistic value of money-

In pro-market society money becomes the sole measure of the value determination and exchange value of things. The question of true value of money becomes absolutely crucial in such a scenario, any distortion in its value will tilt the balance of exchange in favor of money. Once the impact of debt based origin of money and nature of fraction reserve system is understood then it's not difficult to realize the self –propelling impulse of money creation.

Investment of money from the perspective of gaining an interest becomes the dominant criterion of any investment. The act of investment becomes more important than its subsequent consequences on the society and the presently distorted value of money further increase this phenomenon. It subverts the true worth of nature vis a vis humans (financially rich). It is essential that the true worth of products should be valued in the light of the ecological context within which they exist. If it is not done then there is the danger that market exchange will only value things from the perspective of profitability. This profitability is usually viewed from the supply and demand axis in economics which are unilinear totally unaffected by the ecological limitations within which any resource and people exist.¹ The present destruction of different ecologies and problem of climate change is the result of market interaction or money value of natural resources. The presently market value do not truly understand the ecological worth of different things and values them from one-dimensional money perspective. For example any produce which is generated and disposed sustainably should be valued higher than the produce which exploits nature and puts extra burden of disposal on eco-system.

Diamond- water paradox - becoming irrelevant -

Plato, Nicolaus Copernicus, Adam Smith, and John Lock all of them has touched the paradox of value (diamond –water paradox) which points at the contradiction that the water is far more useful for the human existence than diamond yet diamond has a much higher prices.

These are the lines of Adam Smith on this context-

“The word Value, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called “value in use” the other, “value in exchange”. The things which have the greatest value in use have frequently little or no value in exchange; on the contrary, those which have the greatest value in exchange have frequently little or no value in use. Nothing is more useful than water; but it will purchase scarcely anything in exchange for it. A diamond, on the contrary, has scarcely any use –value; but a very great quantity of other goods may frequently be had in exchange for it.”ⁱⁱ

Eugen von Bohm-Bawerk has illustrated the concept of marginal utility with the example of a farmer having five sacks of grain.ⁱⁱⁱ In explaining the diamond –water paradox, marginalists believe that total units of water and diamonds do not determine the price but it is the importance of each unit of water and diamonds which will determine the true price. The main reason for the cheapness of the water despite it being the very basis of life is that water is in abundance. This makes the marginal utility of water low. There is danger in stretching this theory too far, because now humanity has attained the destructive capacity to vitiate the air, water and food. This destruction is going on the name of development and economic growth. If this rate of destruction is not checked the life giving elements like water will soon become far scarcer.

Carl Menger insight – subjective theory of value

Menger stressed on the element of uncertainty in the making of economic decisions, or the limits of rational man who was fully informed of all the circumstances impinging on his decisions. This is the position which separates him from classical and neoclassical economic thought. Menger accepted the marginal utility theory, but he rejects the use of mathematical methods insisting that the function of the economics is to investigate the essences rather than the specific quantities of economic phenomena. But presently GDP which has become the dominant indicator of economic activities measured in terms of money which does not reflect different essences and contexts behind economic activities. There is the need to adopt indicators like Genuine Progress Indicator (GPI) which can factor inequality and environmental degradation or loss of natural capital in a more efficient manner.^{iv} This can further lead to counting of natural capital loss from the negative externalities entailed in the production process and the firms involved in these processes can be penalized for that. The consumption can be divided on the basis of its relation to the basic necessities of life and then things which go on the path of consumerism should be taxed for its negative externalities on nature and fellow human beings. The gap between ‘use value’ and ‘exchange value’ has to be bridged in the context of money which is presently tilted in the favor of exchange value of money which has made money the sole criterion of value of all others including nature and humans. If this gap is not filled than dominance of money on the basis of its exchange value will make everything subservient. This dominance of exchange value has actually allowed centralized banks to keep on increasing their money minting exercise without any kind of resistance. Once the money’s true value is measured on the basis of indicators like GPI and the return on this is reduced for negative externalities, there will be a check on blatant lending. Then the mere act of further lending will not generate profit all the times, wrong lending will make negative externalities far higher than profit. Efforts in this direction will help in finding the true worth or value of money.

Distortions due to the dominance of exchange value-

Presently the exchange value of money has become more potent than the use value of money. This has created distortion in the different sectors of the real economy. Real estate, health, water supply, problem of waste generation, education and agriculture present glaring examples of this.

Example of real estate sector-

India has one of the largest populations living in slums this is not due to the lack of supply from the real estate sector. The main reason for this is the expansive nature of this sector which makes it almost impossible for majority of slum dwellers to afford a house. Exchange value of money (money in exchange of the need) has become a major excuse to deny and justify such injustice which robs people from their right to decent housing. Presently a family with one flat can buy as many more flats as they wish if their demand is backed by money. If a family lives in a slum and wishes to live in their own flat that does not affect the exchange value of the money (that means exchange value of money become insensitive to the genuine need in this context). In this context the exchange value of money has become so powerful that it detaches itself from

the use value of money. The real estate in India has become a source of asset creation and speculation rather than catering to the needs of the people.

Health sector-

In the health sector when poor people are charged excessively for their medical expenditure then this also proves the domination of exchange value over the use value. When medical expenses force people to take debt or get impoverished and even to opt out, this clearly depicts domination of the exchange value of money upon its use value. Whenever the exchange value of money starts to suppress the genuine needs of the people it becomes coercive—a kind of hidden slavery. Modern medicine and pharmaceutical industry has become so powerful and influential that they have started to redefine the purpose of modern medical sector. ‘Big Pharma’ is an influential book which reveals a world where market considerations, not medical need, are determining the research priorities. The author points out that majority new drugs are priced very expensive and pharma companies usually keeps of augmenting minor changes in their existing drugs to dodge the patent laws and they often compete for the same kind of drugs. Their budgets for marketing and promotion of products are bigger than that for research, these companies have been found implicit in influencing the medical education and cajoling doctors to prescribe certain drugs.^v

Water-

Poor households are forced to shell out money for their daily needs of water, it eats into their income. If they are denied safe drinking water which puts their health in peril is an additional negative tax on their income. This is another case where exchange value starts to dominant the use value of money. This criterion makes it clear that whenever the essential requirements of life are made dependent on the money, then the exchange value of money starts to emasculate rights of the weaker sections. If the availability of essentials of life is made dependent on the exchange value of money than those who belong to the richer or wealthy section of the society can over use those resources. Money cannot be the license to overuse natural resource especially when large section of society has not got their due share of it. Money in its exchange value has one inherent weakness that it does not factor in the need criterion of the person indulging in exchange. All effective demands (backed by money) are considered genuine within the market exchange. Common resources of the nature should be measured according the use value of money because they belong to everyone. If some consumer wants to consume them more lavishly than their extra consumption should dependent on the availability of extra resources and impact of this consumption the long term sustainability of that resource.

Waste –generation

Waste –generation has become a big problem and especially urban palaces are facing huge problem of generation of waste. Consumer goods has been managed by the exchange value of money which may not be bad per se but the amount of waste is being generated is an area of concern. This waste is equally harmful for everyone because this waste jeopardizes the health of our eco-system. Presently exchange value of these goods is thought as the ultimate goal of this transaction and this very often neglects the amount of negative externalities which nature has to pay. Therefore consumption of these consumer products especially faster moving consumer goods (FMCG) should be seen from the perspective of use value. The production process of these products should be linked with their subsequent disposal. Non- recyclable packaging and one-time-use nature of these products should be considered seriously, because mere exchange value of these products fails in taking into the account of this waste generation. Now NGOs like Greenpeace has been questioning this flaw of production process. “The packaging industry is one of the major producers of plastic. Single-use plastics—such as PET bottles, caps, food wrappers and plastic bags-produced in FMCG0 and retail, are four of the top five pollutants in the ocean. With a staggering figure of 24,940 tonnes plastic waste produced in India per day, it’ s more than urgent to rethink our use and dependency on single-use plastics. .”^{vi}

Education -

Education is one of the most essential requirements of life if this opportunity is denied to children then it amounts to great injustice. Now primary education has been accepted as the basic right that is a welcome step but still there are other streams of higher education which are very expensive .When education is separated from its use value and measured from its exchange value then there is the danger of excluding many a children from their preferred course of education. The process of too much commercialization of education and its expensive nature excludes intelligent and poor students from the chance to transform their lives with the help of education. Therefore the value of education should not to be judged from the exchange value of money because exchange value neglects the empowering impact of education have on the students. Money in the case of education has to be seen from the aspect of its use value because education is important and it cannot denied merely due to the

lack money. Higher education should be rationalized only on the basis of merit and social equality, lack of money should not impose any restrictions in the path of education.

Agriculture-

Agriculture when seen from the paradigm of profit generation very often focuses on increase of production, more use of water and fertilizers. This in the long term goes against the norms of sustainability, durability and long-term profitability of agriculture. Indian green revolution is the perfect example of it. Increase in the production witnessed a simultaneous rise in the use of fertilizer, pesticide, intensive irrigation and expensive seeds. This urge for bumper production has ruined the entire sustainability of the agriculture, increased the debt and eaten into the profits of the farmers.^{vii} Agriculture profitability should be seen from the context of its sustainability in the long term (its relation with nature) and appropriate income generation for the farmers.

II. CONCLUSION-

Money when becomes the dominant mode of exchange and market ethics starts to penetrate in different aspects of life, this gives birth to money fetishism. Money becomes the measure of evaluation of success and support of every aspect of life. Money as a mode of exchange should not be allowed to attain such an exclusionary status that those who does not possess it have to pay it very dearly. Authors are not pressing for the state action directly to curb it rather there should be a dialogue and research driven process to evaluate the gap between the use value and exchange value of money. This gap needs to be debated and its impacts should be analyzed. There should be a constant evaluation that how much this gap is emasculating the fundamental rights of the poor.

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