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Money: From Midas to Madoff

The cultural life of money may be approached from many viewpoints. This essay tries briefly to use only one of those, that of the economic theory of money. This choice is based not on any claim of its special importance or relevance, but merely on personal limitations. I have no way of making any contribution outside of this field (and not really sure there is one to make in it). As Economics holds many connections with other cultural fields, this limitation may somewhat be reduced by the choice of reference authors. In particular, we must note that the first economist to state a theory of money was Aristotle, a figure who spans far beyond Economics and clearly also one of the most influential authors in the field as may easily be proven.[1] This theory is found in two main texts: Book I of *Politics* and Book V of *Nicomachean Ethics*. Much may be gained from capturing the cultural life of money. Some of the features open up some important clues about the cultural life of money.

1 The body of money

We may start with the definition of money proposed by Aristotle, which extends widely in his statement of its usage. In fact, money is defined according to its own function:

> All commodities exchanged must be able to be compared in some way. It is to meet this requirement that men have introduced money; money constitutes in a manner a middle term, for it is a measure of all things. (NE 1133a.19)
>
> Money then serves as a measure which makes things commensurable and so reduces them to equality. (NE 1133b.15)
>
> This leads us to the very nature of money, being as it is related to custom, to the social role which defines the concept:
>
> Money is called nomisma (customary currency), because it does not exist by nature but by custom (nomos), and can be altered and rendered useless at will. (NE 1133a. 28 – 31)

From this analysis further analysis on the function of money ensues:

1 Joseph Schumpeter, in his masterly *History of Economic Analysis* states: “Whatever may be its shortcomings, this theory, though never unchallenged, prevailed substantially to the end of the nineteen century and even beyond. It is the basis of the bulk of all analytic work in the field of money” (Schumpeter 1954: 63).

> For the natural necessaries are not in every case readily portable; hence, for the purpose of barter, men made a mutual compact to give and accept some substance of such sort, as being itself a useful commodity, was easy to handle in use for general life, iron for instance, silver and other metals, at a first stage defined merely by size and weight, but finally also by impressing on it a stamp in order that this might relieve them of having to measure it. (P 1257a. 34–40)

This theory, based on functions and usages, in itself helps us understand the dramatic evolution in the "body of money," the physical or non-physical substance into which money is incorporated. This, furthermore, represents a crucial aspect to determining the cultural life of money. Anything that performs such functions serves as money.

Money started out as a valuable good. In particular, the primitive currencies, now called "commodity money," were economic products applied as standards for transactions. Then, from the Classical Era onwards metal currencies emerged as coins. These, in turn, evolved into paper-money and onwards into electronic money. Today, 90 % of the currencies in circulation hold no physical existence, being mere bank-dependent computer registers.

Another question related to the body of money stems from the evolution in currency denominations in effect in each country. Table 1 shows a few interesting cases of countries that have shared the same currency for some part of their histories. In the nineteenth century, Portugal had the same currency as two of its colonies, Brazil and Angola. Today, Portugal shares a common currency with Germany. For this reason, the four countries have a relationship in currency terms. It is interesting to note how much they diverged from their common fixed point.

With the euro, Portugal has a currency which is 200,000 times that of 1910, the real. This was achieved by means of two jumps, one in 1911, to the escudo, and one in 1999 to the euro. Although apparently very violent, these transformations are far lower than those witnessed in the other three countries.

In Brazil, the real, which again became the national currency in 1994, is 2,750,000 million million (2.75×10^{18}) times the original real. In Angola, this relationship is much less pronounced as the present quanza is only 1.25 million million (1.25×10^{12}) the 1910 real. This number is similar to the evolution in Germany where the euro is 19.6 million million (1.96×10^{13}) times the legal tender in effect at the beginning of the twentieth century, the goldmark.

Table 1: Evolution of monetary unit

Country/Currency	date of change	Jump
Portugal		
Real		1
Escudo	1911	1000
Euro	1999	200
Brazil		
Real		1
Cruzeiro	1942	1000
Cruzeiro novo	1967	1000
Cruzado	1986	1000
Cruzado novo	1989	1000
Cruzeiro	1990	1
Cruzeiro real	1993	1000
Real	1994	2750
Angola		
Real		1
Escudo	1914	1000
Angular	1928	1.25
Escudo angolano	1958	1
Kwanza	1977	1
novo kwanza	1990	1000
kwanza reajustado	1995	1000000
Kwanza	1999	1
Germany		
Goldmark	1873	1
Papiermark	1914	1E+12
Reichsmark	1924	10
Deutschmark	1948	1
Euro	1999	1.95583

The conclusion inevitably drawn from this brief consideration of all these evolutions in the body of money is that money, in itself, does not exist. The history of economics transformed money from a very valuable good (commodity money) into a good of dubious value (metal money), into one of no intrinsic value (paper), and then into something which holds no physical existence (electronic money). Today, the bank based, fiduciary money we spend performs the same invisible role as gold did in previous societies.

This all enables us to challenge a popular conception represented in the statement by the famous bank robber, Willie Sutton. He reportedly said “Why do people rob banks? Because that’s where the money is” (Sutton 1976).

Today, although the banks are still where the money resides, it is pointless robbing them as there is no physical money to steal.

2 Money fever

A second important facet to the cultural history of money is its effect on people. In order to analyze this facet, we may return to Aristotle.

> Indeed wealth is often assumed to consist of a quantity of money, because money is the thing with which business and trade are employed. But, on other occasions, on the contrary, it is thought that money is nonsense, and entirely a convention, by nature nothing, because when those using it have changed the currency it is worth nothing, and because it is of no use for any of the necessities of life and a man well supplied with money may often be destitute of these necessities [...] like the famous Midas of the story, when owing to the covetousness of his prayer all the viands served to him turned to gold (P 1257b.10).

The myth of King Midas is presented in book XI of *Metamorphoses*, by Ovid (43 BC–17 AD). Midas, king of Pessinus, a city of Phrygia, when asked to choose a present from the god Dionysus, asked for a golden touch. The king then finds out in the worst possible manner the most basic factor in monetary theory: money holds no value. He was able to acquire a lot of gold, but drastically reduced his own welfare and even resulting in the murder of his own daughter, transformed into a gold statue.

This story furthermore symbolizes the dubious fascination with gold. Christopher Columbus, in a letter to Ferdinand and Isabella, rulers of Spain, on 7 July 1503, voiced this fascination by saying: "Gold is most excellent. Gold is treasure, and he who possesses it does all he wishes to in this world, and succeeds in helping souls into paradise." (Columbus, 1503) However, whilst this proves the psychological impact of money, the case of Midas is proof of the fragility and futility of that fascination. This leads us onto the most basic aspect of economic theory, the origin of value.

As is well known, economic value is based on utility, i.e. the importance we attribute to goods. This accounts for the psychological origin of all the value of goods and resources. Goods are useful for people and resources (e.g. labor, capital, energy, raw materials), which attain value by their ability to produce goods. Money represents the only factor, which, while neither a good nor a resource, also holds value. Indeed, there is only one thing with value but no utility: money. Money holds this value simply because we say it has value. This is the conventional aspect Aristotle also pointed out: "Demand has come to be conventionally represented by money [...] it does not exist by nature but by custom, and can be altered and rendered useless at will" (NE V, 5, 1133a.28 – 31).

Should the value of money be merely conventional, it is inherently, by its very own nature, very fragile. Proof of this volatility of money comes in financial crises, such as those experienced in 2008 and 2009, when a lot of financial wealth disappeared overnight. Physical capital and production remain the same, but the money evaporates.

This facet points to another crucial element to fiduciary money, which is patent in its own name. "Fiduciary" means trust-based and, in fact, trust forms the central base of all monetary and financial systems. Whenever there is any crisis of confidence in any financial system or in any currency in the world, such trust instantly disappears.

This also explains the role of the State, through the central bank, in managing the financial system. Central banks hold greater power over commercial banks than any other public office over private firms. The reason stems precisely from trust-building. In the financial collapse of 2008 and 2009, both aspects became very patent when the breakdown in public confidence brought the whole system to near collapse, which was only avoided through massive interventions by governments and central banks. Today, as in the time of Midas, money exerts a drastic fascination but its value always remains extremely fragile.

3 The rule of money

This takes us to a far deeper and highly influential aspect. In the treatment of economics in his treatise on *Politics*, Aristotle made a basic distinction, which, although absent in the more scientifically relevant analysis of *Nicomachean Ethics*, proved very influential historically. This is the separation between household management (οικονομικη, *oikonomikê*) and wealth-getting (χρηματιστιχη, *chrematistikê*).

We should start by the relationships existing between them: "whether wealth-getting is a part of the art of household management, or a different sort of science is open to debate" (P 1256a.13). However, they generally prove very different. *Oikonomikê*, the original word still used in our science, relates to the management of a family or a state: "One kind of acquisition, therefore, in the order of nature includes a part of the household art, in accordance with which either there must be forthcoming or else that art must procure a supply of those goods, capable of accumulation, which are necessary for life and of usefulness to the community of city or household." (P 1256b.26)

The other activity, *chrematistikê*, directly relates to the existence of money, and extends well beyond the needs of a household: “With currency now invented as an outcome of the necessary interchange of goods, there came into existence the other form of wealth-getting, trade. At first, this no doubt went on in simple forms but has latterly become more highly organised as experience discovered the sources and methods of exchange that would generate most profit.” (P 1257b.1–5)

The definition of this second activity shows how intimately trade relates to money. There are indeed some important consequences. The main difference between “natural wealth-getting” (*oikonomikê*) and its unnatural peer (*chrematistikê*) is that the natural version contains limits whilst its peer does not (P 1256b.30, 1257b.30). “These riches, that are derived from this art of wealth-getting, are truly unlimited” (P 1257b.25). The lack of limits is connected to the desire for life: “as therefore the desire for life is unlimited, they also desire without limit the productive means of life” (P 1257b.40).

This idea, lost to later economic theory, proves very interesting. Its value, which is mostly ethical, results from Aristotle’s basic intellectual attitude and allows us to relate this with other cultural approaches. For example, we may say that its meaning closely resembles the Gospel sentence: “No one can serve two masters. Either he will hate the one and love the other, or he will be devoted to the one and despise the other. You cannot serve both God and Money.” (Mt 6, 24)

Furthermore, Adam Smith, another philosopher interested in economic issues and known as the founding father of economic science, makes some similar statements:

> Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident that it would be absurd to attempt to prove it. But in the mercantile system the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce. (Smith 1776: IV, ch. 8)

Even John Maynard Keynes, the famous twentieth century economist, also reported on the dangers of *chrematistikê:* “Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activity of a casino, the job is likely to be ill-done.” (Keynes 1936: 159)

We may say that the extreme case of the *chrematistikê* attitude is found in pyramid schemes, where money is simply shuffled between uses, without any real use. This is a mechanism of pure distribution, where new deposits pay the interest on previous deposits. Operating according to the same system as chain-letters and similarly bound to fail, pyramid schemes inevitably encounter the inherent limits of physical growth. Sooner or later, the scheme will run out of new depositors to finance the interest on existing deposits.

These age-old schemes where made famous by Charles Ponzi (1882–1949), an Italian adventurer, who created a similar scheme in Boston in the 1920s. The debacle led to the naming of such scams as "a Ponzi-game." In Portugal, a similar case was run by Maria Branca dos Santos (1902–1992) in Lisbon in 1983–1984. However, history's biggest case was performed by Bernard Madoff (born 1938) in Palm Beach and New York over twenty years, from 1992 through to 2008. This scheme, involving 68 billion dollars, defrauded many banks and other sophisticated investors.

As stated, the most important aspect of pyramid schemes is that there is no economic application of the money, no investment, no insurance, not even any speculation. It is pure redistribution. This is pure *chrematistikê*.

4 The corruption of money

The Aristotelian distinction between *oikonomikê* and *chrematistikê* is a contribution, which as aforementioned, later scientific economic analysis did not greatly value and incorporate.[2] However, the differentiation simultaneously generated a terrible intellectual and political influence on practical economic considerations, mostly in the Classical Period and the Middle Ages, periods when Aristotle served as a particularly pre-eminent guide. In particular, the aspect under focus is ethical evaluation, which the moral condemnation of *chrematistikê* carried over to many money-related activities. This relationship is explicitly analyzed by Aristotle in the following sequence and explicitly stating that *chrematistikê* may lead to the corruption of the arts: "It not the function of courage to produce wealth, but to inspire daring; nor is it the function of military art nor of medical art, but it belongs to the former to bring victory and the latter to cause health. Yet, these people make all these faculties means for the business of providing wealth, in the belief that wealth is the end and that everything must conspire to the end." (P 1258a.13–14)

Much more relevant are the interconnected condemnations of trade and interest, which Aristotle identified and which had enormous consequences on at-

2 See, for example Gordon (1975), Lowry (1987), Lowry and Gordon (eds) (1998).

titudes towards economic activity until the industrial revolution. This simply bestowed intellectual dignity on some popular preconceptions.

The first, and probably the most relevant, is related to trade and merchants, attributed a negative moral repute by Aristotle: "The branch connected with exchange is justly discredited (for it is not in accordance with nature, but involves men taking things from one another)" (P 1258b.01). But the most famous of Aristotle's economic condemnations is of lending and interest, which were reprobated as usury:

> As this is so, usury is most reasonably hated, because its gain comes from money itself and not from that for the sake of which money was invented. For money was brought into existence for the purpose of exchange, but interest (tokos) increases the amount of the money itself (and this is the actual origin of the Greek word: offspring (tokos), resembles parent, and interest is money born of money) consequently this form of business of getting wealth is of all forms the most contrary to nature. (P 1258b.2–8)

The influence of these condemnations is long and wide. Many historical references confirm this and even opinions by such latter and eminent authors like Karl Marx are perhaps directly related to this aspect of the Aristotelian canon. Another similarity may be found in the religious condemnation of money even while important differences must be noted.

Islam takes a very extreme position on the subject. In particular, while there were no problems with trade, as the prophet Mohammed was a merchant for part of his career, lending and interest are explicitly condemned by the Holy Quran:

> Those who devour usury will not stand except as stand one whom the Evil one by his touch Hath driven to madness. That is because they say: "Trade is like usury," but Allah hath permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for Allah (to judge); but those who repeat (The offence) are companions of the Fire: They will abide therein (for ever). (Holy Quran, Surah 2, The Cow, 275)

The Bible, although not sympathetic to the practice, has no similar drastic repudiation. For this reason, neither Judaism nor Christianity ever took up the doctrinal obstacle of Islam. Actually, we find in the Gospel some references that, although not economic in intent, mention the practice favorably: "You should have put my money on deposit with the bankers, so that when I returned I would have received it back with interest." (Mt 25, 27)

Among the Fathers of the Catholic Church there are some very interesting reflections on the ethical dignity of economic activities. We lack the scope here but would note that some authors, when able to step beyond Aristotle, revert these condemnations. Saint Augustine, for example, presents a very interesting analysis of the ethical question of trade and economic production in his comments on Psalm 71.

> A trader said to me: [...] If there is lying, of false swearing, this is the fault of me, not of trading: for I could, if I would, be able to do without this fault [...] I then, the merchant, do not shift my own fault to trading: if I lie, it is I that lie, not the trade [...] A trader might thus speak to me – Look then, O Bishop, how you understand the tradings which you have read about in the Psalms: lest perhaps you don't understand, and forbid me trading. Admonish me then how I should live; if well, it shall be well with me: one thing however I know, that if I shall have been evil, it is not trading that makes me so, but my iniquity. (Augustine LXXI: 15)

Even Saint Thomas Aquinas, generally considered to be the great medieval disciple of Aristotle, diverged from the philosopher on this point.[3]

The poisonous components to money were thus carried over into other social activities, thereby greatly enlarging the negative effects of the cultural life of money.

Conclusion: Money from Midas to Madoff

These very brief remarks serve to highlight how consideration of the monetary theory of Aristotle may guide us through the most important facets of the cultural life of money. In conclusion, we may quote one of the men who, in the late twentieth century, was most influential in the concrete life of one particular money, the American dollar. Alan Greenspan was chairman of the Federal Reserve Board, the American central bank, for almost twenty years (from 11 August 1987 until 31 January 2006). Summarizing his experience in his memoirs, he has some interesting things to say about the cultural life of money: "Human nature does not change. History is replete with waves of self-reinforcement enthusiasm and despair, innate human characteristics not subject to a learning curve." (Greenspan 2007: 490 – 491)

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3 See Neves (2000) for further discussion.

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