DEUTSCHE BUNDESBANK
EUROSYSTEM

Special exhibit

What is money? Why does money have value?

The fundamental issues of monetary policy have long been a subject of heated debate. Indeed, the central question "why does money have value?" was discussed polemically by the two great Greek thinkers Plato and Aristotle. According to Plato (427–348/347 BC), money should be a symbol that serves to facilitate the exchange of goods. The value of money should be independent of its material substance and should be valid only in its home country. In the opinion of Aristotle (384–322 BC), however, money was a medium of exchange and should, as such, itself be a commodity – a monetary commodity that is measurable by weight and quality. Marks in the form of signs and characters declare and authenticate value, but are not the cause of it.

For over 2,000 years, this conflict between "money as a convention" and "money as a commodity" shaped the monetary policy debate in the guise of the two fundamental monetary theories of metallism and nominalism. Be that as it may, there is no clear answer to the question of whether the value of money was determined by its nominal or material value. The value of coins was undoubtedly based on both factors. In international payment transactions, the transaction value of a coin was determined by its fineness as well as by supply and demand, while the coin's statutory nominal value was of only secondary interest. The latter was crucial, however, wherever the coin was legal tender.

The idea of what money actually is has given rise to varying interpretations in different societies. The invention of the coin in western Asia Minor around the mid-7th century BC formed the way in which money was perceived in Europe and the West, a way of thinking that has held sway more or less continuously since. In other parts in the world, however, different forms of currency were developed: Kissi pennies, for example, were in use in Liberia on the west coast of Africa up to the 1950s. The particular method of producing these iron metal bars was intended to demonstrate the quality of the iron.

Liberia (Africa)
Kissi penny (Fig. 1:3)
36.73 g, 423 mm

Money as a commodity

Swedish plate coins clearly illustrate the nature of value-based money, the purchasing power of which was directly linked to its metal value: scarce in silver but rich in copper, between 1644 and 1776, the Kingdom of Sweden had around 19 billion daler coins minted in copper plates. The notion of money as a commodity is also exemplified by trading coins which had no legal purchasing power in the place where they were used, even though they were officially produced in accordance with a set monetary standard. The Maria Theresa thaler represented one of the most important trading coins in the eastern Mediterranean region and was still a recognised currency in parts of Africa and Asia until well into the 20th century. For the purpose of trade, the thaler continued to be minted in an unchanged format long after the death of the Empress.

Kingdom of Sweden, Frederick I (1720–1751)
1/2 daler, 1742 (Fig. 1:2)
394.65 g, 98.97 x 91.47 mm

Margraviate of Burgau, Maria Theresa (1740–1780)
thaler, 1780 (restrike mint 19th century)
28.06 g, 40.9 mm, countermark: Arabia/Nejd

Money as a convention

Approaches and tendencies towards money as credit can be traced far back in history. The metal of the coin, especially for small denominations, often did not cover all or most of its value. This explains why the weight of aes coins in the Roman Empire fluctuated quite significantly and indeed became lighter over the course of time. Did this have an impact on purchasing power? The Roman jurist Iulius Paulus asserted that the general and sustainable value of money is not due mainly to the material of the coin, but rather to its official mark which expresses the uniformity of its value.

Nero (54–68)
sestertius, 64, Rome
35.2 mm, 25.64 g

Traianus Decius (249–251)
sestertius, 249–251, Rome
29.3 mm, 18.57 g