Money without Value, Accounting without Measure: How Economic Theory Can Better Fit the Economic and Monetary System We Live in

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Introduction

The financial crisis of 2007 was unanimously declared a liquidity crisis, and governments and central banks worldwide reacted by injecting massive amounts of fresh money to rescue the financial system. Whilst this response succeeded in effectively restoring ordinary inter-bank credit, it did not address the systemic issues raised by the crisis.

Empirical evidence of price levels for durable goods, commodities, real estate or corporate shares, as well as of monetary aggregates, does not point to a lack of liquidity as the proper explanation of the crisis. On the contrary, some key elements suggest an excess of liquidity that implied disruptive speculative waves, including overwhelming inflation of financial assets and real estate. At the corporate level, such excess liquidity was enhanced by corporate policies fostering leverage: by debt financing for leveraged buy-outs or to pay down shareholders’ equity through stock repurchases; by leased and off-balance-sheet financing – but also by issuing shares as means of payment for mergers and acquisitions, in some cases; by borrowing and share-issuance by financial organizations; by securitization (i.e., commoditization) of simple or sophisticated financial contracts that displaced those financial investments in the realm of money, giving them an apparent monetary dimension; and by the market liberalization of derivatives’ origination and distribution.
Such a liquidity problem confronts policy-makers and theorists with two distinct issues, already recognized by von Hayek and Keynes respectively: the distinction between money and investment can be weakened and eventually lost by modern financial practices; consequently, secondly, the proper relationship between the monetary and the economic dimension may be muddled by the evaporation of that critical distinction.

Theoretically speaking, then, our problem with liquidity refers to the proper understanding of money and of its role in economy and society. Our problem relates to the confusion between price and value that leads us to misconceive money as a ‘measure of value’. This confusion appears to survive from the classical economic English tradition which dominated the nineteenth century and the birth of the political economy. The following analysis will show that this peculiar understanding of money is inappropriate to the current financial and economic conditions, and does not properly capture the functioning of money in either financial or non-financial organizations.

This paper aims therefore at developing a constructive critique of the concept of money as a measure of value. This concept creates a quantitative correspondence of money to everything, and reduces its fundamental roles – as a means of payment and a mode of accounting – to the quantity of money that is supposed to be the general equivalent for everything. However, advances in economics and accounting allow us to better understand money without value, and accounting without measure. Money may then be interpreted as a socio-economic medium without intrinsic content, and its accounting function may be effectively inscribed into the set of relationships that constitutes every economic organization which is accounted for on a monetary basis – whether public or private, business or non-business, financial or non-financial. This institutional economic approach to money and accounting may enhance our understanding of the socio-economic system as a dynamic system of relationships based upon both monetary and economic dimensions.

**The surviving preconception of classical economics**

Limiting our attention to modern economic thought, the idea of money as a measure of value belongs to the classical economic English tradition. Those economists were fascinated by the accumulation of capital that was then understood as the ultimate source of wealth. Consequently, they tried to explain the working of the whole economic system from