The Evolution of Exchange: The Four Modes of Exchange 2.1/e

[Words with a ce superscript are found in the Civilization Engineering Glossary]

http://www.civilizationengineering.com/glossary/

Money[ce] is an essential component of a Stable, Durable Civilization. Without a correct monetary system in place, any civilization will fail sooner or later. But to get to the proper understanding of Money[ce], one must know precisely what it is; and there is no more cluttered and confused arena than Money[ce]. This confusion comes largely from the failure to understand that there are four, generically different, modes of exchange.

The four modes of exchange are: 1) barter 2) quasi-money 3) money and 4) credit. These modes evolve one from the other, progressing from barter to credit, in an evolutionary fashion. The Austrian School of monetary theory correctly explains how it is possible to go from a strict barter modality to the second modality, which I call quasi-money. What is required is for someone on one side of an exchange to subjectively place an exchange-value on the object being exchanged. An exchange-value is different from a consumption-value. With a consumption-value attached, the person intends to consume the item in question. With an exchange-value attached, the person intends to trade away the item for something else, not consume it. With this shift on the part of one of the persons doing the exchange, indirect exchange is born and the person making this shift is liberated from the straightjacket of barter— a huge market advantage.

As more persons in the economy begin using indirect exchange, a particular commodity evolves into the preferred commodity for indirect exchange. Historically this commodity is gold and or silver but there are many other examples of other commodities becoming the common choice. In a prison setting, it might be cigarettes.

As the practice of indirect exchange grows in the community, fewer and fewer people are even able to place a consumption-value on the commodity being used, and instead rely on just the number of the quantity of the commodity— the exchange-value in other words. At this stage in the evolution of exchange, we are operating in the second mode of exchange which I call quasi-money. A commodity is circulating as the monetary unit, yes, but what really counts— and only counts in most cases— is the number of exchange-units of that commodity which the monetary instrument represents.

With this shift in objective, from reckoning on the consumption-value to reckoning on the exchange-value of a particular commodity, the Monetary Matrix[ce] is born in that person's consciousness— and very quickly that of many other persons who also have made the shift. Operating in the Monetary Matrix[ce]— reckoning in number only and not consumption-value— is to be operating strictly in numbers with no real regard for any ability to redeem the monetary unit for a specific commodity. When Nixon removed the gold backing of the dollar, it was largely met with a shrug. By then, the marketplace had fully made the shift to the third mode of exchange: a monetary system which is pure number in character with no commodity backing. This is the third mode of exchange and is the modality for a true monetary system. When the monetary instrument is not a warehouse receipt for a given quantity of commodity, it is just pure number and nothing else.

Once an economy has reached the third mode of exchange, the monetary system can be managed to bring about a Money-Neutral Economy: wherein all price movements represent a true change in supply and/or demand and not a change in price due to manipulations in the supply of monetary units. This has never been done in human history but that does not mean it cannot be done. The key is to hold the number of monetary units at a very fixed number per participant in the system. The solution to holding the monetary supply at a fixed number per participant using the system is shown in Money: Executive Summary on this website. Solving this problem was the birth of Civilization Engineering®.

In the first three modes of exchange, something of marketable-value passes both ways in the exchange at the same time. Each party to the exchange can immediately proceed to the next exchange with what they have obtained in the exchange.

The fourth mode of exchange is Credit wherein something of marketable-value passes from the lender to the borrower but the lender receives only a promise of future value. The lender is thus on hold until he gets paid off by the borrower.

These are the Four Modes of Exchange and they differ generically. There are no other modes possible. What the second mode of exchange needs to work properly and render a Money-Neutral Economy is exactly the same things needed to make the third mode of exchange render a Money-Neutral Economy. This fact makes a commodity-based monetary system unnecessary and in practice quite inferior to a true monetary system operating in the third mode of exchange.

The Evolution of Exchange

Barter	Quasi-Money	Money	Credit

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