"बेटी बचाओ, बेटी पढ़ाओ" **JAYOTI VIDYAPEETH WOMEN'S UNIVERSITY, JAIPUR**

Government of Rajasthan established

Through ACT No. 17 of 2008 as per UGC ACT 1956

NAAC Accredited University

Faculty of Education and Methodology

Faculty Name- JV'n Dr. Md Meraj Alam

Program- BA B.Ed 4th Semester

Course – Money Banking and Public Finance

Digital session name – Meaning and Nature of Money

Introduction:

There has been lot of controversy and confusion over the meaning and nature of money. As pointed out by Scitovsky, "Money is a difficult concept to define, partly because it fulfills not one but three functions, each of them providing a criterion of moneyness … those of a unit of account, a medium of exchange, and a store of value."

Though Scitovsky points toward the difficulty of defining money due to moneyness, yet he gives a wide definition of money. Professor Coulborn defines money as "the means of valuation and of payment; as both the unit of account and the generally acceptable medium of exchange." Coulborn's definition is very wide. He includes in it the 'concrete' money such as gold, cheques, coins, currency notes, bank draft, etc. and also abstract money which "is the vehicle of our thoughts of value, price and worth."

Such wide definitions have led Sir John Hicks to say that "money is defined by its functions: anything is money which is used as money: 'money is what money does." These are the functional definitions of money because they define money in terms of the functions it performs.

Some economists define money in legal terms saying that "anything which the state declares as money is money." Such money possesses general acceptability and has the legal power to discharge debts. But people may not accept legal money by refusing to sell goods and services against the payment of legal tender money. On the other hand, they may accept some other things as money winch are not legally defined as money in discharge of debts which may circulate freely. Such things are cheques and notes issued by commercial banks. Thus besides legality, there are other determinants which go to make a thing to serve as money.

Theoretical and Empirical Definitions of Money:

There being no unanimity over the definition of money. Prof. Johnson distinguishes four main schools of thought in this regard which are discussed below along-with the views of Pesek and Saving.

The Traditional Definition of Money:

According to the traditional view, also known as the view of the Currency School, money is defined as currency and demand deposits, and it’s most important function is to act as a medium of exchange. Keynes in his General Theory followed the traditional view and defined money as currency and demand deposits. Hicks in his Critical Essays in Monetary Theory points towards a threefold traditional classification of the nature of money: “to act as a unit of account (or measure of value as Wick-sell put it), as a means of payment, and as a store of value.” The Banking School criticised the traditional definition of money as arbitrary. This view about the meaning of money is very narrow because there are other assets which are equally acceptable as media of exchange.

These include time deposits of commercial banks, commercial bills of exchange, etc. By ignoring these assets the traditional view is not in a position to analyse their influence in increasing their velocity. Further, by excluding them from the definition of money, the Keynesians place greater emphasis on the interest elasticity of the demand function for money. Empirically, they forged a link between the stock of money and output via the rate of interest.

Friedman’s Definition of Money:

The monetarist (or Chicago) view is associated with Prof. Friedman and his followers at the University of Chicago. By money Friedman means “literally the number of dollars people are carrying around in their pockets, the number of dollars they have to their credit at banks in the form of demand deposits and commercial bank time deposits". Thus he defines money as "the sum of currency plus all adjusted deposits in commercial banks".

This is the "working definition" of money which Friedman and Schwartz use for the empirical study of the monetary trends of the US for selected year 1929, 1935, 1950, 1955 and 1960. This was a narrower definition of money and the adjustment in both demand and time deposits of commercial banks was devised to take into account the increasing financial sophistication of the commercial banks and the community. But he could not establish a single index of this sophistication. Even with this adjustment, cash and deposit monies were not strictly comparable over long periods.

However, the correlation evidence for 1950, 1955 and 1960 suggested a broader definition of money as "any asset capable of serving as a temporary abode of purchasing power". So Friedman gives two types of definitions of money. One on theoretical basis and the other on empirical basis. This led to a lot of controversy which Friedman tried to solve on the basis of methodological issues. According to Friedman, "The definition of money is to be sought for not on grounds of principle but on grounds of usefulness in organising our knowledge of economic relationships."

Thus the definition used for empirical purposes is unimportant because different definitions will give different results. The empirical results will ultimately depend upon the nature of assets included in the definition of money as a temporary abode of purchasing power.

Thus concludes Friedman, "The selection of a specific empirical counterpart to the term money seems to us a matter of convenience for a particular purpose, not a matter of principle." He is, therefore, not rigid in his definition of money and takes a broader view which includes bank deposits, non-bank deposits and any other type of assets through which the monetary authority influences the future level of income, prices, employment or any other important macro variable.

The Radcliffe Definition:

The Radcliffe Committee defined money as "note plus bank deposits". It includes as money only those assets which are commonly used as media of exchange. Assets refer to liquid assets by which it means the monetary quantity influencing total effective demand for goods and services. This is interpreted widely to include credit.

Thus the whole liquidity position is relevant to spending decisions. Spending is not limited to cash or money in the bank but to the amount of money people think they can get hold of either by selling an asset or by borrowing or by receipts of income from, say, sales. The Committee did not make use of the concept of velocity of circulation because as a numerical constant, it is devoid of any behavioural content.

On the basis of crude empirical tests, the Committee did not find either direct or indirect link between money and economic activity via the interest rate. But it gave a new transmission mechanism based on liquidity. It explained that a movement of interest rates implies significant changes in the capital value of many assets held by financial institutions.

A rise in the interest rates makes some less willing to lend because capital values have fallen, and others because their own interest rate structure is sticky. A fall in interest rates, on the other hand, strengthens balance sheets and encourages lenders to seek new business.

The Gurley-Shaw Definition:

Gurley and Shaw regard a substantial volume of liquid assets held by financial intermediaries and the liabilities of non-bank intermediaries as close substitutes for money. Intermediaries provide substitutes for money as a store of value. Money proper which is defined as equal to currency plus demand deposits is only one liquid asset.

They have thus formulated a wider definition of money based upon liquidity which includes bonds, insurance reserves, pension funds, savings and loan shares. They believe in the velocity of the money stock which is influenced by non-bank intermediaries. Their views on the definition of money are based on their own and Goldsmith’s empirical findings.