

Unit of account or medium of exchange? Rejoinder

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Professors Aschheim and Tavlas and I appear to agree on issues of substance; and if this puts us in disagreement with most monetary economists, as they say, so be it. In my comment I meant not to assert that money's medium-of-exchange and unit-of-account functions "deserve equal billing" (A&T, p. 207) and "are equally important in economic theory" (as A&T, p. 208, interpret my meaning). I asked, rather, how degrees of importance might be measured and what might be at stake, anyway, in trying to compare them. I also meant to explain the quantitative aspects of both functions (not that A&T actually denied them). My further purpose was to mention broader applications of their insights.

Referring to the EPU, A&T suggest that such a clearing system, because it uses a unit of account, is a system of monetary exchange. This is a mere matter of labeling. I cited the works of Kuenne and Schumpeter to exploit the contrast between centralized clearing and an ordinary monetary system. Sure, centralized clearing requires some sort of unit of account, but that fact does not invalidate the illuminating contrast. A monetary system contrasting with centralized clearing features settlements by decentralized transfers of media of exchange evaluated in units of account (or transfers of ownership of the media, pace Yap). The media may be of diverse kinds, and perhaps advantageously so, like government issues and the notes and deposits of competing banks.

I cited Radford's article not as pertinent to the question of primacy between money's two functions but to illustrate money's 'spontaneous' emergence. It is unhelpful to define money to make it tautologically a creature of the state.

I shall again only allude to the broadened contexts in which A&T's insights are useful. Unit of account and medium of exchange are both essential (even or especially in theory meant to explain the processes of the real world). The two need not be welded together, however, in the sense that the medium defines the unit. Separation is conceivable, has historical precedents and might even be advantageous, along with a diversity of media of exchange and only a fuzzy line between what does and what does not count as money. I insist, though, that the questions of relative importance of money's two functions and of whether money necessarily had a governmental origin are not issues of substance for monetary theory.