FROM
BARTER PARADIGM
TO
PROPERTY PARADIGM
A YOUNG STUDENT’S FIRST INQUIRY INTO MONEY MAY WELL BEGIN AT WIKIPEDIA WHERE HE IS LED TO THE ENTRY “MEDIUM OF EXCHANGE“.

“A medium of exchange is an intermediary used in trade to avoid the inconveniences of a pure barter system”.

[https://en.wikipedia.org/wiki/Medium_of_exchange; last modified on 9 February 2016, at 14:30;].

HOW COULD SUCH A STATEMENT BE WRONG IF 76 NOBEL LAUREATES IN ECONOMICS SUBSCRIBE TO IT?
Adam Smith’s (1723-1790) biological view of property and barter, i.e. of the market, was put forward in 1776. It was meant to explain nearly everything in the realm of economic activity as the outcome of

• “a certain propensity in human nature ...; the propensity to truck, barter and exchange one thing for another. Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog. Nobody ever saw one animal by its gestures and natural cries signify to another, this is mine, that yours; I am willing to give this for that”

Adam Smith was put to test by Karl Polanyi (1886-1964) in 1944.

“The idea of profit is barred; higgling and haggling is decried; giving freely is acclaimed as a virtue; the supposed ‘propensity to barter, truck, and exchange’ [Adam Smith, 1776] does not appear. The economic system is, in effect, a mere function of social organization.”

(Karl Polanyi, The Great Transformation (1944), Boston: Beacon Press, 1957, p. 49.)

Yet, Polanyi leaves us in the dark about that non-barter element of “social organization” that might lead to money and markets.
MONEY WAS NOT CREATED TO ALLEVIATE BARTER!

• “Barter, in the strict sense of moneyless market exchange, has never been a quantitatively important or dominant model of transaction in any past or present economic system about which we had hard information. / Moneyless market exchange was not an evolutionary stage [. . .] preceding the arrival of monetary means of market exchange.”

Can DEMAND Explain Economic Activity?

- Tribesmen have demand, need huts, canoes, paddles, sleeping mats and cooking utensils!
- Feudal lords as well as their serfs express the same kind of demand!
- Communists have tons of demand!
  Yet, all they achieve is production and distribution. Business tools like credit, interest, money, and markets do not emerge.
Gold items of the Neolithic (4500-3300 BCE) that does neither know markets nor money.

[National Museum of Archaeology, Athens; foto G. Heinsohn.]
Achievements of Mycenaean feudalism (15th c. BCE) that does neither know markets nor money

[National Museum of Archaeology, Athens; fotos G. Heinsohn.]

**METALLURGY**
Gold buttons for precious garments

**WRITING**
Tablet recording aromatic herbs
Citadel of pre-monetary, i.e., Bronze Age Greece: MYCENAE OF GOLD
Even **electron** – a natural alloy of gold and silver used for **earliest coins** – was successfully mastered by pre-monetary Mycenae.

**Electron death-mask from Mycenae (15th c. BCE)**

[National Museum of Archaeology, Athens; foto G. Heinsohn.]
Greek feudalism works precious metals and writes in LINEAR B but lacks markets and money!

“What can be identified is the activity of the palace; which exacts produce […] from the king’s subjects, and doles out rations and materials when something has to be done. […] There is no suggestion of money, or of any standard by which values might be compared, items just being counted, weighed, or measured as they stand. Nor is there any direct reference to foreign trade which must have involved some kind of exchange; and we may reasonably suspect that the palace, which controls so much, would control this also.”

“Money is a paradoxical entity. Its origin is, like that of language, an enigma in human history.”


“The manner in which loans became so mighty a machine is mysterious.”

What element of “social organization” is missing in systems that do not generate markets and money?

- “A claim to the private ownership of special pieces of land within the ‘clan’ [tribal] district is generally not recognized.”

(R. Thurnwald, Economics in Primitive Communities, London: Oxford University Press & International African Institute, 1932, p. 186.)
What did the Romans know?
Where could money come from if it is not a commodity to facilitate barter exchanges?

Lucretius (99–55 BCE)

• “Later [with the polis; i.e. after Mycenaean citadels] came the invention of property and money [lit. “gold”], which speedily robbed the strong and handsome of their status”.

• (De rerum natura, V: 1113–1114).
“A number of men of property join together in a contract of banking [...]. For this purpose, they form a stock which may consist indifferently of any species of property. This fund is engaged to all the creditors of the company, as a security for the notes they propose to issue. So soon as confidence is established with the public, they grant credits, or cash accompts, upon good security [also to the public].”

POSSESSION / OWNERSHIP

POSSESSION IS ETERNAL / NATURAL!

Factual occupation, control or physical use of property.

- Ownership / Property is not!

Residue of legal rights in an asset held by a person after other rights – such as possession – have been granted to others. An example is a title to land created through entry in a land titles register.
PERIOD OF THE POLIS

“HOROS TEMENOS ATHENAIAS”
[Boundary of the land of Athena].
[https://www.dropbox.com/s/vh7oyitczmf5g0m/Screenshot%202016-02-29%2017.34.33.png?dl=0]
Where does the *polis* come from?

“It has already been noted that in the Dark Age [c. 1100 to 600 BCE] the community [*polis*] had only a shadowy existence as a political organism. How the shadow acquired substance is a process we cannot trace.”

“The causes of the development of the *polis* are not known”.

“Less clear is the origin of the *polis* system, which historians often claim is to be found in the rugged geography of Greece, with its limited water sources, scattered patches of farmland, and difficult communications”
Do we have to give up now?
Yes, if we believe in textbook chronology!

<table>
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<tr>
<th>TRANSFORMATION FROM PRE-MONETARY MYCENAEAN FEUDALISM TO THE POLIS ACCORDING TO STRATIGRAPHY</th>
<th>INEXPLICABLE TRANSFORMATION FROM PRE-MONETARY MYCENAEAN FEUDALISM TO THE POLIS ACCORDING TO TEXTBOOK CHRONOLOGY</th>
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<tr>
<td><strong>600 BCE</strong></td>
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<tr>
<td>Stratum of <em>polis</em>. Property is added to possession by revolutionaries against catastrophically weakened feudal lords. Rebellion leaders are remembered as legendary heroes like Theseus (Greece) or Romulus (Italy).</td>
<td>Stratum of <em>polis</em> with property whose origins must remain engimatic because they are hidden in 500 yeras of darkness.</td>
</tr>
<tr>
<td><strong>BRIEF PERIOD OF MASSIVE NATURAL DESTRUCTION.</strong></td>
<td><strong>1100-600 BCE</strong></td>
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<tr>
<td><strong>REVOLUTIONS BEGIN AGAINST MYCENAE’S FEUDAL SYSTEM THAT WAS BASED ON POSSESSION ONLY.</strong></td>
<td>“Dark Age of Greece“ prohibits explanation of the rise of the <em>polis</em> though the stratum below is contingent with the stratum above. There are no windblown layers between the two strata expected for 500 fallow years.</td>
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<tr>
<td><strong>700-600 BCE</strong></td>
<td><strong>1100 BCE</strong></td>
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<tr>
<td>Last Mycenaean – pre-monetary – stratum ending in catastrophe that flattened many feudal citadels.</td>
<td>Last Mycenaean – pre-monetary – stratum ending in catastrophe, dated by modern Egyptologists via names of Egyptian pharaohs found on seals (royal cartouches) excavated in Mycenae.</td>
</tr>
</tbody>
</table>
Two successive stages of the same upheaval were distributed over two different periods separated by 500 years.

- The *polis* with — with property, “sale, loan and credit” is not the “product of Indo-European tribal organisation, but as a social system growing out of the ruins of an ‘Oriental despotism‘.”

Out of the ruins of feudalism/despotism!

• “That end [of Mycenaean feudalism] was more abrupt than most breakdowns of past civilizations. From Thessaly in the north to Laconia and Messenia in the south, at least a dozen fortresses and palace-complexes smashed. / There is no dispute about the magnitude of the catastrophe in Greece.”

**What do we know of the MEN in the post-catastrophic *polis*?**

There are “Free men” and “Rural freeholders.”

“Economic activity, it should be recalled, was essentially carried on by free men.”

“Money did provide a mode of translating immovable assets into reckoning assets.”

ROMA QUADRATA:
Why does *haeredium* become the earliest Latin term for ownership?

*VARRO: DE RE RUSTICA (I: 10)*

“Two iugera form a *HAEREDIIUM*, from the fact that this amount was said to have been first allotted to each citizen by Romulus, as the amount that could be transmitted by will.”
The revolutionary creators of the polis did not know that credit, price and interest would have to follow soon.

The founding heroes of *polis* (Greece) and *civitas* (Rome) who divide the estates and eliminate the feudal lords -- to create Theseus’ “state without King” or Romulus’ *Roma quadrata* -- face unprecedented challenges. After the first harvest, co-revolutionaries advantaged by a more favourable lots have sufficient supplies in their granaries while others can barely maintain their existence. Moreover, the fellow-citizens under threat can no longer obtain help on the basis of blood relationship à la tribe or rations for serfs à la feudalism.

• However, they still have their allotment of land. One of them requests credit from a more successful rural freeholder by offering a part of his land as collateral (Latin *praedium* = plot of land). By simultaneously employing his land’s (eternal) possessional aspect (ploughing, sowing, and harvesting the physical soil), and pledging it as (innovative) security he cannot help but discover the non-physical title to it. **THIS IS THE DISCOVERY OF PROPERTY.**

• To calm the creditor’s uneasiness for loosing access to the (immaterial) security his grain would yield him during the credit’s time-span the debtor offers him a material compensation. **THIS IS THE RATE OF INTEREST ENFORCING GROWTH.**

• To formulate the credit-contract the creditor must quantify the amount of land his debtor has to turn over in case of not fulfilling it. **THIS IS THE FIRST PRICE.**
WHAT IS MONEY IF IT IS NOT A STANDARD-GOOD TO ALLEVIATE BARTER? A CLAIM TO PROPERTY TO MOVE FROM CREDIT IN KIND TO NOMINAL/IMONETARY CREDIT!

Aes signatum ("stamped pound" weighing 2 to 8 Roman pounds of 327 g)

ROMAN 5th/4th c. BCE AES SIGNATUM
(full coin and small change)
FROM GRAIN LOANS TO LOANS OF MONEY.
Money is a claim against the creditor’s property that loses its freedom when it is encumbered to back money! This, now, is the loss that must be compensated by interest.

• Aes grave = 327.45 grams  (1 pound weighing one pound as the grain in the loan in kind)
• As = 40, 10, or 12 g  (innovative nominal pound [token])
• Uncia = 1/12 of an As  (fraction of a token pound)

Weight reduction (from 327 to 12 grams) is seen by most economic historians as devaluation. Yet, it is not. It is merely the logical evolution of nominal money whose intrinsic value becomes irrelevant because it is backed by property of the creditor. The latter keeps all his possession but promises the holder of nominal money to redeem it, i.e., hand over possession and property simultaneously.
OWNERSHIP PREMIUM / RATE OF INTEREST

• OWNERSHIP PREMIUM

• Premium on property that is neither burdened nor hypothecated, i.e. that is unencumbered and free.

• INTEREST

• Compensation for the loss of ownership premium. In a money-creating creditor-debtor contract the rate of interest compensates the loss of ownership premium experienced by the creditor (typically a note-issuing bank), who has to reserve or set aside property assets to back the note issue.
Nominalized claim over a property asset created in a creditor-debtor contract. Examples are bank notes and deposits created by private note-issuing banks or central bank notes and deposits. Deposits created by commercial banks are not money but claims to central bank money.
The MARKET (=sales contract) is the child of the credit contract.

The market is an entity that becomes necessary *uno actu* with the money-creating *credit contract* and allows for the acquisition of *sales contracts* over commodities that provide the means to refund debts. The market is not found in possession-based command and tribal systems that do not have the credit contracts based on property pledged as collateral (to secure credit) or employed for backing (to secure the money note) for whose fulfilment markets are derived.
### THE ECONOMIC SYSTEM

#### OWNERSHIP ASPECT
(activated through burdening and hypothecation)

- **NOTE-ISSUING CENTRAL BANK**
  - Bank capital
  - > **non-physical** title
  - > ownership premium lost when capital is set aside (burdened) to back the creation of money
  - > Lost ownership is offset by interest received from commercial banks
  - > Capital and assets can be sold and are subject to debt enforcement actions

- **COMMERCIAL BANK**
  - Bank capital, bank assets
  - > **non-physical** title
  - > ownership premium is lost when assets are hypothecated (or transferred in repurchase agreements) and capital is set aside to obtain central bank notes
  - > Lost ownership-premium is offset by interest received from loans to non-bank enterprises
  - > Ongoing income stream from assets used as collateral for central bank loans
  - > Capital and assets can be sold and are subject to debt enforcement actions

- **ENTERPRISE/ENTREPRENEUR**
  - Production assets
  - > **non-physical** title
  - > ownership premium lost when hypothecated to obtain bank loans for investment in production assets and wage labor
  - > Assets can be sold and are subject to debt enforcement actions
  - > Physically deployed in income-generating production activities (to refund debt and interest)
  - > Defends competitive position through qualification

- **WORKER**
  - Human assets
  - > Freedom=self-ownership
  - > Non-physical too but cannot be burdened, sold or subject to debt enforcement actions
  - > Right to hire out labour per time-unit to gain interest-free and collateral-free wage money

#### POSSESSORY ASPECT
(activated through physical use and control)

- **NOTE-ISSUING CENTRAL BANK**
  - Bank capital
  - if tangible property, can be used simultaneously with activation of ownership aspect

- **COMMERCIAL BANK**
  - Bank capital, bank assets
  - if tangible property, can be used simultaneously with activation of ownership aspect

- **ENTERPRISE/ENTREPRENEUR**
  - Production assets
  - Physically deployed in income-generating production activities (to refund debt and interest)
  - Defends competitive position through qualification

- **WORKER**
  - Human assets
  - Wage labor deployed in production to generate income to repay loan with interest
  - Defends competitive position through qualification
Because most economists only know possession – frequently mislabeled as “property” – but are not aware of property they cannot analyze an economy but only production systems.

• "The most serious challenge that the existence of money poses to the theorist is this: the best developed model [Debreu-Walras general equilibrium] of the economy cannot find room for it."
  
  (Frank Horace HAHN [co-developer of general equilibrium theory], Money and Inflation, Oxford: Basil Blackwell, 1982, p. 1.)

• "We do have very elaborate macro-economic models. They just suffer from one disadvantage. They do not include the financial sector."
  
  (Peter BOFINGER [member of Germany's Five Economic Sages], “Interview“, in Frankfurter Allgemeine Sonntagszeitung, 17 May 2009, p. 35.)

The money explanation of *Eigentum, Zins und Geld* [Property, Interest, and Money] was, in 2000, juxtaposed with the money views of Aristotle, Adam Smith, Bernard Laum, and John Maynard Keynes in the “Theory Room” of the *Geldmuseum der Deutschen Bundesbank* (Money Museum of the German Bundesbank, Frankfurt am Main).


Heinsohn teaches *Ownership Economics* in St. Gallen/CH (Malik Management Zentrum [MZSG]), and Zug/CH (Institut für Finanzdienstleistungen [IFZ]).

He has served, from 1993-2009, as speaker of the *Raphael-Lemkin-Institut für Xenophobie- und Genozidforschung* (University of Bremen), Europe’s first institute devoted to comparative genocide research where he authored the first encyclopaedia of genocide (*Lexikon der Völkermorde*; 1998; 1999, 2nd ed.), as well as an outline for an international body to monitor genocidal emergencies globally (*Völkermordfrühwarnung / Genocide Watch*, 2000 [1998]).

Heinsohn’s study “Sons and World Power: Terror in the Rise and Fall of Nations” (*Söhne und Weltmacht*; Zurich 2003; with 10th impression in 2010 a scholarly bestseller [Dutch, Japanese, and Polish editions in 2008]) tries to illuminate the role of youth bulges in mega-killings of past, present, and future. It has been the only study worldwide to predict the “Arab Spring” (beginning 2010). Since 2011, Heinsohn teaches war demography at the master courses of NDC (*NATO Defense College*, Rome). He has published on the demographics of violent conflicts in the major newspapers and magazines of the German language area as well as in the *Wall Street Journal*, the *New York Times, Le Monde*, the *Financial Times*, the *Weekly Standard*, *NRC-Handelsblad* (Amsterdam) etc.