Seed Global

First we invest our time and capital to earn money. Then we invest more of our time to further invest our accumulated money or savings, so that it can earn more money. We all want/need more money, but perhaps what we really want is more wealth. And money is not wealth.

In this article, Ian De Lange Seed Chief Investment Officer, explores why ***Money Aint Wealth.***

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If Money Ain't Wealth - What Is It?

The classical understanding of money comes from Aristotle who asked, "*what is the purpose of money*"? He noted that its primary intended function is a medium of exchange, and secondly, a unit of account. It's logical to assume then that money should store some value if it is going to be used as a medium of exchange sometime in the future.

With a primary function as a medium of exchange, money is a **wonderful innovation or tool** because it facilitates the obstacle to efficient trade known as the "**double coincidence of wants"**. Without the lubricant of money, trade can only occur between two parties where each desires the others product or service in the same quantity and in the same time frame. Imagine a scenario where one person sells bread, but is looking for holiday accommodation. Finding someone willing to sell holiday accommodation for bread would be a challenging task.

As originally articulated by Adam Smith, once people no longer make all their necessities themselves, only a small part of their wants would come from their own labour, making all of us merchants in some measure. **Money, as a liquid, tradeable good**, overcomes this tricky "double coincidence of wants" problem, by being standardised, fungible, and the intermediary good with a long "shelf life".

In the modern world, the majority of money is no longer physically stored in notes and coins, but rather in virtual form in banks as a ledger entry. In this form, while available to us, it **technically does not belong to us**. Rather it takes the form of a loan agreement or an IOU debt that the bank owes to all its depositors. When we deposit our money in the bank, we are essentially lending them our money. In return for this loan, the bank may pay us interest depending on the prevailing interest rate environment.

Money can also be considered a **claim on wealth**. When you possess money, you essentially hold a claim to a portion of the total wealth within an economy. If money retains its value over time, this claim will extend to future goods and services that entrepreneurs will produce. By holding money, you are in essence securing a piece of this economic pie.

This is not necessarily a guaranteed claim because there is **nothing intrinsically valuable about money itself** as paper notes or even digits on your bank account. Instead, the value of money is derived from a shared belief and confidence in its acceptability for transactions. It's essential to recognise that this confidence can be quickly be eroded.

Benjamin Franklin said, "*time is money*". This statement prompts us to view money as an accumulation of time, considering the absolute scarcity of time and the relative scarcity of money. Equating time with money also leads us to understand that when we are spending money we are exchanging it for other people's time. This idea also emphasises the concept of opportunity cost, **reminding us to be mindful of where we allocate or spend both our time and our money.**

Money, especially through its unit of account function also serves as **important and useful information**. Prices, acting as information, accurately reflect the social consensus on the value of time. Through prices, we send and receive messages, capturing individual preferences. Each time we exchange money for a particular good or service, we signal our value preference. For instance, do we decide to convert some saved time (i.e., money) into a Rolex watch, a European family holiday, or perhaps utilise money's store of value function and save some for consuming into later years?

In conclusion, money is much more than a mere currency. It's a powerful and important tool that symbolises our time, choices and aspirations. Its true value lies in how we choose to use it to acquire true wealth, which extends beyond material possession.

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If you have any questions about the global investment environment, Ian and our team are here to assist you. We welcome you to reach out to us directly on global@seedinvestments.co.za.

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