

SIGNIFICANCE OF MONEY

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- **Money in capitalist economy**
- Capitalist economy is a system of economic organisation featured by the private ownership and the use of private profit of man-made and the nature –made capital or in other words ,capitalist economy is that economy in which means of production are owned, controlled and regulated by private organisation. The capitalist economy also recognizes freedom of choice, freedom of contract and freedom of enterprise. But before deciding to use property or means of production in a particular use or industry , the owner looks for guidance from the Price mechanism. The capitalist economy cannot function without the price mechanism .And the price mechanism , by its nature, has to be expressed in terms of money .

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- **The significance of money in capitalist economy can be explained as follows:**
- The most significant role of money lies in the functioning of the price mechanism. The central problem of a capitalist economy as to what, how much, how and for whom to produce are solved through the price mechanism.
- Under Capitalist economy, the consumer is the king who buys only those commodities which give him the maximum satisfaction with a given money income. When the price of each commodity expressed in money equals its marginal utility, the consumer gets maximum satisfaction. Thus, money enables a consumer to make a rational choice out of the various commodities he wants to buy with his given money income.

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- Money has great importance to producers specially in capitalist economy characterized by large- scale production and division of labour. It has enabled the producer to organize his production in a most economical manner and spared him the botheration of barter system .
- Producers and businessmen are concerned, while planning their future production ,with the cost of production(to purchase various goods) and selling prices along with profits- all are calculated in terms of money.

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- The price- mechanism (expressed in money)also determines the share of remuneration of factors of production. The rewards of factors of production (wages,salaries,interest,rent and profits ,etc.)are determined in monetary terms as per the forces of demand for and supply of ,them.
- The price mechanism also helps the individual to arrive at correct decision regarding saving and spending.

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- **Money in Socialist Economy**

- Some socialist thinkers have pointed out that money has no role to play in a centrally – planned socialist economy. According to their opinion , the socialist economy can function quite smoothly without the use of money in any manner , because in such an economy the entire economic activity is planned, controlled and executed by the planning commission on behalf of the state. Socialist thinkers like **Karl Marx and Lenin**, have expressed serious opposition to money . In **Marx 's view** , an ideal economy was an economy in which there was no medium of exchange like money ,and goods was exchanged against goods. This was ,according to **Marx** , quite feasible in a socialist ,planned economy. Following Marx , money was thus abolished in the Soviet Union after the Communist Revolution 1917. But it soon realized by the new rulers that the abolition of money was a blunder on their part.

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The Soviet Government felt that economic calculations were essential for the success of five year plans. But these calculations were simply not possible without the monetary unit in circulation. So the use of money has been given its due place in the Soviet economy since 1920. Money, thus, performs virtually all the functions in a socialist economy which are associated with it in a capitalist economy. The need for money in a Socialist economy arises from the considerations given below:

- The question of the proper and economical utilization of economic resources in a socialist economy is as important as in the capitalist economy. Proper and economical utilization of scarce economic resources in the economy is not possible without rational economic calculations. These rational economic calculations are possible only in terms of prices expressed in money.

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- The socialist price mechanism , like the price mechanism of the capitalist economy, is also expressed in money. The Socialist price mechanism , in its turn ,facilitates the task of allocation of resources among industries and individuals.
- The existence of money in a socialist economy confers a certain amount of freedom of choice on the consumers who can buy goods liked by them. Without money the equitable distribution of goods produced among millions of consumers would indeed be rendered very difficult.
- The distribution of national income in the socialist economy also takes place through the medium of money.
- In this way as pointed out by **Prof. Lerner** , no economy , whether capitalist or socialist can function smoothly and efficiently without monetary price mechanism. In an economy without money ,scarce resources are bound to be wasted. Taking into account all these considerations, **Prof. Halm** has also said that a socialist economy , in fact , a monetary economy. It can not function efficiently sans money.
- Though money is important ,it does not play as decisive and important a role in socialist economy as in capitalist economy. While in a capitalist economy , money is a master , it is at best only a servant in a socialist society.

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- **Money in an Underdeveloped Economy:**
- Money occupies an important place in an underdeveloped economy as well. If an underdeveloped economy determined to raise its standard of living resorts to the technique of economic planning, it will have to provide for adequate monetary resources to set up the rate of economic growth. The need for money in a Underdeveloped economy arises from the considerations given below:
- Real resources in underdeveloped countries are not so scarce as monetary resources . These countries require monetary resources on an adequate scale to activate their dormant real resources. Thus the government of these country has to provide for adequate finance(monetary resources) to accelerate economic development of the country.

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- In underdeveloped country the government arranges adequate finance from all possible sources – Taxes, short term and long term borrowing from public etc. In case the proceeds from taxation and borrowing are inadequate, the government may be forced to issue inconvertible paper currency (money) on a large scale to meet the monetary requirements of economic development.
- Besides internal finance, the government of an underdeveloped economy has to mobilize adequate foreign exchange resources as well to step up the rate of economic growth.

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