intersection of economics and criminology remains a vital field for research going forward, and the civil courts will likely be the major arena where defrauded investors will attempt to secure restitution.

CONCLUSIONS

Paul Krugman did great service by training his guns on the failures of the club of which he has been, for many years, a most distinguished member. So, I am inclined to forgive the headline writer of *The New York Times Sunday Magazine* for borrowing, almost word for word, the title of an article of mine – published nine years previously (Galbraith 2000). I nevertheless will not resist the temptation to quote my own words from back then:

> *Leading active members of today's economics profession... have formed themselves into a kind of Politburo for correct economic thinking. As a general rule – as one might generally expect from a gentleman's club – this has placed them on the wrong side of every important policy issue, and not just recently but for decades. They predict disaster where none occurs. They deny the possibility of events that then happen. ... They oppose the most basic, decent and sensible reforms, while offering placebos instead. They are always surprised when something untoward (like a recession) actually occurs. And when finally they sense that some position cannot be sustained, they do not reexamine their ideas. They do not consider the possibility of a flaw in logic or theory. Rather, they simply change the subject. No one loses face, in this club, for having been wrong. No one is dis-invited from presenting papers at later annual meetings. And still less is anyone from the outside invited in.*

This remains the essential problem. As I have documented – and only in part – there is a rich and promising body of economics – theory and evidence – entirely suited to the study of financial crisis and its enormous problems. This work is significant in ways in which the entire corpus of mainstream economics – and including recent fashions like the new "behavioral economics" is not. And it brings great clarity to thinking about the implications of the Great Crisis through which we are still passing today. But where is it, inside the economics profession? Essentially, nowhere.

It is therefore pointless to continue with conversations centered on the conventional economics, futile to keep on arguing with Tweedledum and Tweedledee. The urgent need is instead to expand the academic space and the public visibility of ongoing work that is of actual value when faced with the many deep problems of economic life in our time. The urgent task is to make possible careers in those areas, and for people with those perspectives, that have been proven worthy by events. The followers of John Kenneth Galbraith, of Hyman Minsky and of Wynne Godley can claim this distinction. The task now is to increase their numbers and to reward their work with the public recognition and the academic security it deserves.

This essay is adapted from *"Who Were These Economists Anyway?"* in Thought&Action, 2009, Vol 25, pp 85-95

References

Akerlof, George & Paul M. Romer, 1993. *"Looting: The Economic Underworld of Bankruptcy for Profit"*, Brookings Papers on Economic Activity, Economic Studies Program, The Brookings Institution, vol. 24(1993-2), pages 1-74

Albin, Peter S., 1998, *"Barriers and Bounds to Rationality"*, Princeton: Princeton University Press.

Arrighi, Giovanni, 2003. *"The Social and Political Economy of Global Turbulence,"* New Left Review, March-April.

Arrighi, Giovanni, 2007, *"Adam Smith in Beijing: Lineages of the Twenty-first Century"*, London and New York: Verso.

Baker, Dean, 2002. *"The Run-Up in Home Prices: Is It Real or Is It Another Bubble?"* August 5, http://www.cepr.net/documents/publications/housing_2002_08.htm

Black, William K., 2005. *"The Best Way to Rob a Bank is to Own One"*, Austin, University of Texas Press.

Bond, Patrick, 2004, *"Crunch time for US capitalism?"* Z-Net Commentary, December 4

Brenner, Robert, 2003. *"The Boom and the Bubble"*. New York: Verso

Brenner, Robert, 2009. *"The Origins of the Present Crisis"*, www.sscnet.ucla.edu/issr/cstch/

Chen, Ping, 2010. *"Micro interaction, meso foundation, and macro vitality Essays on complex evolutionary economics"*. London: Routledge.

D'Arista, Jane, 2002. *"The Overheated Mortgage Machine,"* Flow of Funds Review & Analysis December 2002.

Davidson, Paul, 2003. *"Financial Markets, Money and the Real World"* London: Edward Elgar.

Dymski, Gary, 2005, *"Financial Globalization, Social Exclusion and Financial Crisis,"* International Review of Applied Economics, Vol. 19, No. 4, 439-457, October

Galbraith, James K. 2000, *"How The Economists Got it Wrong,"* The American Prospect, February.

Galbraith, James K, 2008. *"The Predator State"*, New York: Free Press

Galbraith, John Kenneth, 2007. *"The New Industrial State"*, Princeton: Princeton University Press.

Godley, Wynne, 2008. *"Prospects for the United States and the World: A Crisis That Conventional Remedies Cannot Resolve."* Levy Economics Institute Strategic Analysis, December. www.levy.org

Harvey, David, 2005. *"The New Imperialism"*, Oxford: Oxford University Press.

Minsky, Hyman P., 2008. *"Stabilizing an Unstable Economy"*, New York: McGraw-Hill.

Mirowski, Philip, 1991, *"More Heat Than Light"*. New York: Cambridge University Press.

Rosser, Barkley jr,. Mauro Gallegati and Antonio Palestrini, forthcoming. *"The Period of Financial Distress in Speculative Markets: Interacting Heterogeneous Agents and Financial Constraints"* Macroeconomic Dynamics. Available:www.cob.jmu.edu/rosserjb

Janine Wedel, 2001. *"Collision and Collusion: The Strange Case of Western Aid to Eastern Europe"*. London: Palgrave-MacMillan.

Wood, Ellen Meikskins, 2005. *"Empire of Capital"*, New York: Verso.

James K. Galbraith *teaches at the Lyndon B. Johnson School of Public Affairs, The University of Texas at Austin. His most recent book is The Predator State: How Conservatives Abandoned the Free Market and Why Liberals Should Too, and his next book, Inequality and Instability, will be published by Oxford University Press in 2012. In the early 1980s he served as executive director of the Joint Economic Committee of the U.S. Congress, and he holds a Ph.D. in economics from Yale.*

THE ONTOLOGY OF MONEY

Geoffrey Ingham
Images: Frank Perrin

INTRODUCTION: THE NATURE OF MONEY

Money is a pivotal social technology in the history of human society. Media of exchange and means of payment make possible the operation of the division of labour and the subsequent exchange of production in large-scale markets. After many years of neglect, the question of the nature of money is receiving the attention it deserves. As yet, however, it can scarcely be said that this represents an advance in understanding; unresolved problems are being rediscovered and old errors restated. Fundamentally different answers to the question of the ontology of money have endured for at least two millennia and continue to inform the current debate in Economy and Society. Notwithstanding the differences, it is possible to discern a common problem in most critiques. They fail to understand that money is a pure symbol of abstract value measured by its own scale. As many before them, they confuse the scale with the actual instrument. Some search for the value of money in the value of a commodity, others are confounded by myriad representations of what Knapp (1973) [1924]) called the 'valuableness' that is identified by a single money of account. The abstract quality of valuableness is given a more precise substantive expression as purchasing power, at any point in time, by the arbitrary construction of a price index. But, as relative prices change through a radically uncertain future, this power is provisional. In Mirowski's memorable phrase, society's problem 'is to find some means to maintain the working fiction of a monetary standard' (1991: 579). The really difficult question is to understand the ways in which this is accomplished, or not as the case may be.

THEORIES OF MONEY

In the most elementary terms, there are two distinct and incompatible theories of the origins, development and nature of money[1]. On the one hand, money is said to have first appeared spontaneously in the course of market exchange. Here money is identified with its commodity form. It emerges as a 'medium of exchange' that acts as a 'universal equivalent' – that is to say, as the commodity against which all others can be valued and exchanged. From the outset, it is important to note that the important distinction between simple barter exchange and a market is not observed in this approach. Strictly speaking, a market is a system of multilateral exchanges in which bids and offers, priced in a money of account, can in principle produce a single price for a uniform good (White 1990). Bilateral exchanges, or barter, need not, and routinely do not, produce a single price in this way – although neoclassical economic theory has tried, but failed, to demonstrate this outcome. Consequently, I have argued that simple barter exchange cannot produce a single stable price for a commodity that would enable it to act as universal equivalent (measure of value, or money of account) (Ingham 2004). That is to say, a genuine market presupposes the existence of a money of account in which demand and supply can be expressed in prices. In other words, money of account is logically anterior to the market (Ingham 2004; Aglietta and Orléan 1998).

1 It is apparent that the terms of the dispute have a scientific and ideological import that has a much wider resonance than the particular question of money, which, perhaps, accounts to some extent for the persistence of the antinomies (Ingham 2005: xi–xiii).

In this theory, the focus of attention is on media of exchange, and less attention is given to other means of monetary transmission and to money of account. It should also be noted that there is an important, but rarely made, distinction between media of exchange and media of transmission. Coins and notes are generally considered to be media of exchange and transmission – or, currency that circulates. But credit cards, for example, are not exchanged for goods – that is to say, they are (or should be) non-circulating media of transmission of abstract value stored in accounts. This of course raises intriguing questions. In a credit card transaction what does money consist in? If coins and credit cards are both money, how do we know this?

The other school – to which I subscribe – sees money as an abstract claim, or credit, measured by a money of account. Here money's nature is twofold: it measures and stores the abstract value of general purchasing power and transports it through space and time. Money has value not because it comprises a commodity with fixed intrinsic value (although an authority might declare it to have one, as in a gold standard), but because it is 'the value of things without the things themselves' (Simmel 1978 [1907]: 121). It is essential to recognize the abstract nature of this measure of value. Some thing may be judged to be more valuable (or longer) than another by direct comparison, but precisely how much more valuable (or longer) can be established only by an abstract measure against which they can both be judged (Simmel 1978 [1907]: 131; Carruthers and Babb 1996). My elaboration of this view holds that the process of exchange cannot produce the measure, which therefore must be considered, as we have already noted, to be logically anterior to multilateral exchange. Money requires its own social and political conditions of existence – most importantly, an authority – which are relatively independent of the sphere of exchange. Money entails sovereignty (see the theoretical and extensive empirical work in Aglietta and Orléan 1998, 2002; also Goodhart 1998).

The ontological specificity of money derives from what Keynes referred to as the 'description' of money by a money of account (Keynes 1930: 4). Such a description, by which we understand some object or institution as being monetary, is assigned by what the philosopher Searle refers to as 'collective intentionality' (Searle 1995, 2005). In other words, money does not spontaneously emerge from the individual quest for utility in competitive market exchange. Media of exchange become money, as opposed to exchangeable commodities, only when they conform to the description of measured abstract value – dollars, euros, etc. (Of course, money is traded as a commodity on foreign exchange markets, but it must be first constituted as money.). This position has sometimes been identified as monetary nominalism, as opposed the monetary materialism of the commodity-exchange theorists' emphasis on the form and substance of money things (see Ellis 1934).

Of course, an account of the social construction of this nominalization is necessary. In The Nature of Money, I argued that money was not

> "a genuine market presupposes the existence of a money of account in which demand and supply can be expressed in prices."

only produced socially, but actually constituted by a social relation of credit-debt denominated in an abstract money of account. First, issuers promise to accept in payment of any debt owed to them, denominated in their declared money of account, the form of money that they have emitted and described by the same money of account (Ingham 2004: 12, 178, 187). Second, money (with a known value, as opposed to mere tradable commodities) can exist as a credit for the holder only if there are other debts, denominated in the same money of account, awaiting cancellation[2]. In other words, money (as opposed to mere tradable commodities) cannot be created without the creation of debt (Bloch 1954 [1936]; Innes 1913, 1914) (It should be noted that 'spot' monetary exchanges also involve short-term debt 'contracts' in which a coin is handed over, for example, to settle a debt incurred in contracting to buy a newspaper.).

THE UNIVERSAL EQUIVALENT

The orthodox neoclassical theory embraces the myth of money's origins in barter exchange, while I pursue the project of seeking to establish analytically the conditions of existence of money in general.

About a century ago, this question was framed in terms of money's 'logical', as opposed to 'historical', origins. Given the inherent inadequacy of the evidence, the precise historical origins of money will never be known[3]. But, this does not mean that we should dismiss the relevance of the historical record, as the economic theorists did at the turn of the last century. Any analytical construction of money's logical conditions of existence must be consistent with historical knowledge – however inadequate this may be.

Marx's has been also cited to defend the thesis that monetary relations unfold out of initial contacts between commodity owners creating a universal equivalent. In particular, Marx's method for establishing the exchange value of a 'relative' commodity to an 'equivalent' commodity (e.g. 20 yards of linen = 1 coat) (Capital I, 1976: 138–78) is used to recognize a rudimentary moneyness in the accidental encounters of traders that realize that an 'equivalent' commodity can be exchanged for the 'relative'. But this is a binary relation between commodities and bilateral relation between traders – in other words, it is a description of barter. Mere exchangeability has been established and not rudimentary moneyness which entails multilateral relations.

However, neoclassical economic theory does not distinguish barter from market exchange. After a series of 'analytical stages' this theory asserts that a frequently traded commodity 'eventually monopolizes the ability to buy' and, consequently, becomes a universal equivalent (money). But the difficulty in demonstrating analytically the passage to a situation in which 'all commodity owners make regular and frequent requests for exchange to a single commodity' is well acknowledged (e.g. Lapavitsas 2005: 393).

The crucial question is whether the transition from commodity to universal equivalent can be logically deduced exclusively from the analytically specified conditions of existence in the model. And in the neoclassical theory of money's logical origins, a range of empirical, or 'historical', conditions have to be introduced to render the theory coherent (e.g. Lapavitisas 2005: 394–5).

As I have emphasised (Ingham 2004), it is impossible to make a purely analytical move from binary relations between commodities, involving bilateral barter exchange, to a genuine multilateral exchange market, without assuming a universal equivalent, which is exactly what should be explained. It is for this reason that Keynes made the basic distinction between a 'convenient medium of exchange' and what he considered to be the 'primary concept of a theory of money' – that is, money of account (measure of value) (Keynes 1930: 3).

In orthodox economic theory, from Menger (1892) to modern neoclassical analysis (Kiyotaki and Wright 1989), it is implicitly assumed that money of account is unproblematic (see Hoover 1996). It is thought to be merely a matter of numerically representing the value of a frequently traded commodity that spontaneously emerges as a medium of exchange. But, unless assumptions about further concrete conditions of existence are added, it is difficult to avoid the conclusion that the exchange value of any 'convenient medium of exchange' would vary to such a degree from trade to trade that it would not be sufficiently to stable to be used for the posting of price lists in genuinely multilateral markets and, more importantly, longer-term debt contracts (see also Hicks 1989; and, of course, Keynes 1930). A commodity such as a rock of salt that serves as a convenient medium might exchange for two ducks in one trade (or contract) and three in the next, and so on. The particularistic terms of any salt/duck debt contract would also seriously impair its transferability. A holds B's IOU for three ducks, but C will not accept them in payment of A's debt to her of two rocks of salt.

A stable measure of value (money of account) for commodity money requires that the value of the commodity is fixed by an authority in a stable exchange ratio; for example, an ounce of gold equals one dollar; an ounce of best Virginia tobacco equals one shilling (see Grierson 1977: 17). Economic theory has held, but has been unable to demonstrate convincingly that myriad bilateral exchanges will eventually produce such a stable ratio and thereby a usable measure. Even if all commodity owners make regular and frequent requests for exchange to a single, it does not follow that this most tradable commodity could act as a stable enough measure to enable viable price lists and, more importantly, transferable debts.

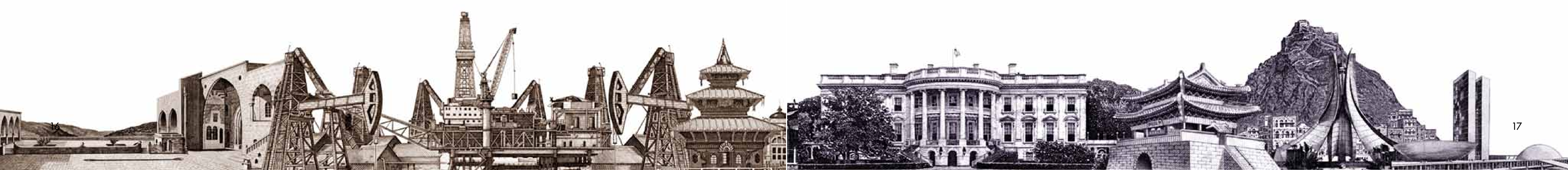
It is true to say that under certain circumstances a commodity might 'spontaneously' gain a sufficiently stable exchange value for it to function as a measure of value (money of account), but these are atypical and do not involve large markets with many goods and long-term debt contracts. It is significant that Radford's (1945) account of the use of cigarettes as money (money of account and medium of exchange) in a World War II prison camp continues to be cited in mainstream textbooks as a demonstration that 'money is a natural economic phenomenon not dependent on government for its existence' (Champ and Freeman 2001: 38). However, prisons and drugs present special conditions. First, repeated spot exchanges with a relatively small number of commodities, involving a small number of traders with known preferences, can more readily establish a universal equivalent. Second, in order for it to function as a stable measure of value, the scarcity of the linchpin commodity must be maintained. The supply of cigarettes and other drugs

> "Regardless of form and media of transmission, all money is constituted by social relations of credit denominated in a measure of value"

is stabilized to some extent by the addicts' consumption, but more importantly the potential anarchy of barter is replaced by the power of the 'tobacco/drug barons' to control the supply. Money as the 'stable pole [that] contrasts with the eternal, fluctuations, movements of objects with all others' (Simmel 1978 [1907]: 121) is achieved by drugs in prisons by domination, not the market. For the ''money'' stage to emerge properly, however, extra-economic factors are again necessary. Moreover, the overwhelming weight of historical evidence points to the fact that trade credit, denominated in a money of account and notched on tally sticks or clay tablets, was the main means by which early trade was conducted (the most recent and extensive bibliographies are in Hudson and Henry in Wray (2004)).

2 In Marc Bloch's (1954 [1936]: 77) counterintuitive formulation, money would disappear if everyone paid their debts simultaneously.

3 Keynes, with characteristic whimsy, saw the futility of the search for the 'earliest beginnings' of money which 'are lost in the mists when the ice was melting, and may well stretch back into the paradisaic intervals in human history of the interglacial periods, when the weather was delightful and the mind free to be fertile of new ideas – in the Islands of the Hesperides or Atlantis or some Eden of Central Asia' (1930: 13).



> “ But, money also transports abstract value through time into an unknowable future.”

Historically, the case of Babylon is also significant, as Keynes clearly saw, because valuable commodities were given a fixed ratio to produce a measurement of value (money of account). The commodities of silver and barley were linked, by authoritative declaration, to what was in effect a labour theory of value in order to construct a measure of value (money of account). This development was not the result of market exchange. Babylon's monetary accounting system was based on a shekel weight of silver (240 barley grains, about 8 grams in the modern scale), which was accorded the equivalence of a gur (about 1.2 hectolitres) of barley. This was the amount of barley that was considered in the redistributive system to be necessary to maintain a labourer's family for a month (Goldsmith 1987).

Three specific problems are often highlighted when trying to associate money's origins with the social invention of an abstract money of account. First, that linking money of account to a credit theory of money is extremely tenuous and that assigning exceptional theoretical importance to money as a unit of account in credit relations is arbitrary and misleading. A brief reiteration should suffice to counter this point. Regardless of form and media of transmission, all money is constituted by social relations of credit denominated in a measure of value; money is a credit or claim on goods priced in the same, and a means of discharging debt contracts so denominated. A monetary space is one in which all prices and debts are denominated in a single money of account. Holders of the media – or, more typically today, of general purchasing power in bank accounts – possess the credits that can be transmitted for the purchase of goods and cancellation of debts. Conversely, the credits are emitted as a liability (debt) by the issuers, as explained above. Money cannot be created without the creation of debt.

But not all credit is money. My personal acknowledgment of debt in the form of a promise of deferred payment/settlement (IOU) of the credit extended to me by my particular creditor is not readily transferable. That is to say, it cannot be used by her to pay an anonymous third party. In order to cut through the common-sense, but entirely misleading, distinction between money and credit that clouds our understanding of the nature of money, it is helpful to consider coins and notes as 'portable credit/debt' (Gardiner 1993, 2004). A coin (transferable credit) is handed over to cancel the debt incurred in the contract to buy a newspaper and is accepted because it is a credit for the next purchase in the same sovereign monetary space. Money is transferable credit. In this regard, it is also useful to note Gardiner's further distinction between 'primary credit' (simple deferred payment) and 'intermediated credit' by which debts can be settled with the use of the credits emitted by an intermediary issuer (Gardiner 1993, 2004). These have myriad forms and media of transmission: coins and notes from mints, cheques, giro and credit card clearance from banks. etc. And, to repeat, we know that they are all money with a specific and identifiable power of purchase that corresponds to price lists because both sides (debt-credit) are described by a money of account.

The second criticism is that there is no unambiguous evidence of the existence of a purely abstract unit of account. This objection appears to stem from an elementary misunderstanding of the process of abstraction, which has bedeviled the analysis of money through the ages. This contention argues that the theory of a purely abstract unit of account needs to demonstrate the existence of money of account that did not originally function as means of exchange, i.e. money of account with purely ideal units, products of human consciousness alone. The Babylonian example should suffice as an answer. To be sure, real fields of barley (gur) and real silver by weight (shekel) existed, but their identity as gurs and shekels with a specific equivalence was the result of a process of abstraction by human consciousness. That is to say, it is the equivalence that is abstract. This was not any field of barley, but a quantity declared to be appropriate to feed a family of a certain class for a month – that is to say, an ideal field. Moreover, neither fields of barley nor shekel weights of silver circulated as media of exchange. The money of account was an abstractly established constant equivalence; that is to say, the issue is not one of quantities of commodities, but, their authoritatively declared relationship.

The third related point of criticism gets to the nub of the issue and the source of confusion: the seemingly intractable problem of value and price. This argument refers to Marx's dismissal of Steuart's theory. It is possible, according to Marx, to measure value and establish prices with abstract ideal money, but only 'the wildest theories' would conclude that actual value can be deduced from the ideal measure of prices. Bearing in mind our discussion of the impossibility of establishing a universally equivalent value in exchange and Keynes's contention that money is that which answers the description of money, what is the difference between ideal money and actual money?

Marx's penetrating critique of classical economics and distinction between measure of value and standard of price (Marx 1976 [1867]: 192) is based on the labour theory of value. Ricardo, for example, had maintained that there could be 'no unerring measure of either length, of weight, of time or of value unless there be some object in nature to which the standard itself can be referred'. In the first place, however, measures need not consist of the 'nature' of that which is measured – measures of length need not be long, measures of weight need not be heavy, and money things, described by a measure of value, need not consist of a 'natural' valuable material such as precious metal (see Simmel 1978 [1907]; Carruthers and Babb 1996). None the less, it is the case that some measures – such as cubit (forearm) and yard (stride) – are derived from standard length parts of the body.[4] But, values that are attributed socially and expressed numerically as prices are not natural in this sense. Marx successfully unmasked classical economics' ideological identification of the money price of a supposedly natural commodity such as gold with an absolute and natural standard of value. He replaced it with his version of the labour theory of value. Gold coin has value because it has to be mined and minted and consequently it can have an equivalence with other commodities because they are all 'congealed quantities of human labour' (Marx 1976: 141). The distinction between measure of value (embodiment of objective labour value) and standard of price (money of account) makes sense only if there exists such an absolute measure anchored in an absolute value.

> “ On the one hand, it is oxymoronic to view 'personal credit' as money.”

In the early twentieth century, Simmel struggled to establish a new conception of money. For him, money expressed 'the distilled exchangeability of objects with all others . . . the relation between things' (Simmel 1978 [1907]: 124). But the exchange relations could not, in itself, produce the stable value with which to measure the relativities (Simmel 1978 [1907]: 124). Following Simmel, Orléan refers to money as autoréférentielle; that is to say, the value of money is that which money measures – an abstract quantity of purchasing and debt-discharging power (Simmel 1978 [1907]: 122; Aglietta and Orléan 1998, 2002; see also Searle 1995). The actual value at any point in time can be established, not without difficulty, by arbitrary price indices. But, money also transports abstract value through time into an unknowable future. How is this possible? How is this maintained in the absence of a natural or social absolute linchpin value and the inability of the process of exchange to produce one? In brief, it is a matter of maintaining trust and scarcity. For example, a precious metal standard is a promise made by the issuers to maintain the exchange value of the monetary unit of account in relation to a fixed price of a given weight of metal. In this case, monetary scarcity is in part naturally determined by physical scarcity. Today's 'supply' of money is located in the bank deposits that represent the debts contracted by governments, firms and individuals. In effect, monetary authorities now promise to maintain the purchasing power of the abstract value by manipulating, through changes in interest rates, the willingness to borrow, thereby making the creation of debt (and therefore money) 'scarce'.

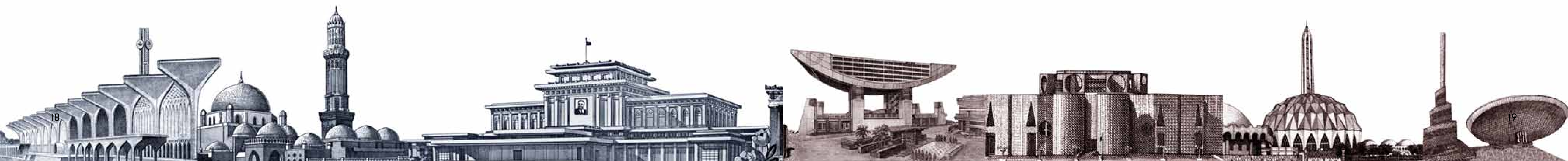
4 Even here there could be quite significant local variations unless these were standardized by an authority – usually the state.

THE DUALITY OF MONEY

The 'duality' of money, the distinction between money of account/measure of value and media of exchange and transmission of the denominated abstract value, is fundamental to my own analytical refinement, as it has been to those of many others over the centuries (for example, see Knapp 1973 [1924]; Keynes 1930; Schumpeter 1994 [1954]; Wood 2002; Einaudi 1956 [1936]; Hoover 1996; Innes 1913, 1914; Hawtrey 1919; Wray 1998, 2004; Smithin 2003). Keynes addresses this point in the opening sentence of A Treatise on Money with an unequivocal repudiation of orthodoxy: "Money of account, namely that in which Debt and Prices and General Purchasing power are expressed, is the primary concept of a Theory of Money" (Keynes 1930: 3). Then, he stresses the crisp distinction between money of account and money media – "the first being the title or description and the second the thing that answers to the description" – and concludes – " if the same thing always answered to the same description, the distinction would have no practical interest. But if the thing can change, whilst the description remains the same, then the distinction can be highly significant" (Keynes 1930: 4).

As I have explained, money of account is 'primary' because without it the other 'things', or 'money stuff ' – coins, notes, credit cards – would not have the quality of 'moneyness'. The specific quality of money cannot be derived from mere exchangeability or value storage and transportation. Other things can have these properties, but these in themselves would not enable the construction of viable price lists and debt contracts. 'The most important fact of all' about money is 'the possibility of monetary calculation' (Weber 1978: 80–1).
But money of account is not the single defining characteristic of money. I believe that money's dual nature depends on the satisfaction of both of two conditions that describe the specific functions that are assigned socially and politically in a process whereby money becomes an institutional fact (Searle 1995):
1- a measure of abstract value (money of account) (Keynes 1930;Grierson 1977; Hicks 1989; Hoover 1996);
2- and as a means of storing and transporting this abstract value (Ingham 2004: 70)

My argument is that money of account cannot be readily established by exchange and, consequently, that it always has an authoritative foundation. But, if the generic quality of 'moneyness' is to be found in a money of account imposed by an authority such as a state, it would wrong to reduce money to a "state-issued currency". Moneyness is present also in other media of exchange and transmission that states do not produce – for example, private bank notes and bills of exchange in earlier times and private cheques and credit cards today. The substantive should not be confused with the analytical – that is, the 'historical' and the 'logical'.



TWILL #14 - WWW.TWILL.INFO

States and their currencies are not essential to the analytical, or logical, argument about the primacy of money of account; other authorities can exist. Indeed, historical evidence shows how networks of traders formed associations through which they constructed and imposed, by authority, their own money of account for transactions, often in opposition to a monarch's claim to absolute sovereignty (see the exhaustive account of the early modern period in Europe in Boyer-Xambeu et al, 1996). But they were chronically unstable. Historically, states have been the most successful authorities for establishing and maintaining a stable money of account, but they vary in their ability to enforce it, as they also do in their claims for legitimacy and monopolization of coercion.

Today, the insecure grasp of the nature of money makes some believe that e-money, and finance gained through the Internet, suggest that money is increasingly being created as personal credit. Shifting the focus from technological media to the underlying social relations by which money is created, we are able to see that the changes believed to be in train are both theoretically misidentified and empirically questionable. On the one hand, it is oxymoronic to view 'personal credit' as money. This would make sense only if all agents were able to issue their own liabilities (IOUs) and get them widely accepted as a transferable means of payment. In capitalist economies, this 'top' means of payment consists in the issue of a state's mint and in its liabilities, drawn on the central bank, which are injected into the economy in payment for the goods and services that the state purchases. Moreover, the expansion of credit instruments has not empowered consumers. On the contrary, personal debt continues to expand at an unprecedented rate because consumers fall increasingly in thrall to credit card companies and banks.

My scepticism about any recent significant change in state control of money is twofold. Stable moneys of account cannot be produced exclusively and spontaneously by economic exchange and the historical generalization that the successful creation of stable monetary spaces has been the work of states is indisputable. Money is an expression of impersonal trust and legitimacy in a sovereign monetary space which, for example, enables the foreign agents to engage in genuine market exchange. Strong-moneys have always been used to denominate transactions and serve as means of payment outside their territory of origin and have created monetary spaces that that are not isomorphic with the issuing authority's territorial space. And, on the other hand, as I have indicated, complete monetary monopolization has been the exception rather than the rule historically.

The so called 'homogenization' and 'diversification' of money are descriptions of concrete developments that relate to the duality of money and cannot be grasped without an understanding of politics. 'Dollarization' in which, for example, over 70 per cent of all international transactions are denominated in the US dollar is not difficult to explain, whether or not the distinction between money of account and monetary media is uppermost in our minds. While this does involve a loss of sovereignty for some states, it simultaneously increases the domination of the global economy by the US state and its corporations (Gowan 1999), in exactly the same way that the gold-sterling standard did for the Bank of England.

Diversification of monetary media within a claimed sovereign monetary space is ubiquitous, and the recrudescence of local media of exchange has been facilitated, but not caused, by modern information and communications technology. Monetary 'diversification' is most extensive where state control of the money of account has been weakened or lost, and monetary anarchy invariably ensues. Modern examples of this proliferation of alternative media of exchange are legion: Afghanistan, post-Communist Russia, Argentina and most dramatically in the hyperinflation in Germany after the First World War (see Orléan 2005).

For Simmel, money is an idea, but it is a serious misunderstanding of his work to think that money conceived as the idea of 'a universal means of quantifying value . . . can never empirically exist' (Dodd 2005: 572). Money exists as a socially constructed and sustained symbolic abstraction – that is, an idea to which many different media of exchange and transmission may, by decree or convention, correspond.

> **"the Federal Reserve's staff now do not have a very clear understanding of what they are doing, or even what they think that they are doing."**

CAPITALIST CREDIT-MONEY

It might seem to be unnecessary to draw attention to the fact that money is an essential component of the capitalist system. As Marx complained, the 'cash nexus' comes to dominate all social relations, everything and everyone in society becomes a commodity, and the quest for profit gradually replaces all other motives in humanity's productive activity. Somewhat paradoxically, however, money's role in the development of capitalism is largely taken for granted in the social sciences. Economic development is seen to be triggered by other factors —the division of labour, technology, population growth, property rights and so on. There is a strong implication that money simply emerges in response to the functional needs of expanding economic activity. For example, it was naively assumed in the 'shock therapy' construction of a capitalist economy in Russia in the early 1990s that the creation of a monetary system would be unproblematic (Woodruff 1999). However, as this episode demonstrated, money does not appear spontaneously in this way; it is rather a fragile socially and politically constructed institution (Ingham 2004).

The capitalist monetary system developed from the integration of private networks of mercantile trade credit-money with public currency — that is, state money. Capitalist credit-money was, arguably, the most important element in the 'memorable alliance' between the state and the bourgeoisie, which Weber considered to be so important in the rise of capitalism. By the seventeenth century bills and promissory notes circulated extensively across the major trading countries of Europe as transnational private money. Moreover, the banks were able to produce this money by lending, in the form of bills and notes, to individual merchants and producers. This lending created a deposit (the client's debt to the bank) against which further bills and notes could be drawn. This practice is quite different from pre-capitalist money-lending where the lender depletes their stock of coins. The 'new' money created by the bills and notes was based simply on two promises: on the one hand, the debtor's promise to the bank to repay the debt and, on the other, the bank's general promise to accept its notes in repayment of any debt owed by anyone.

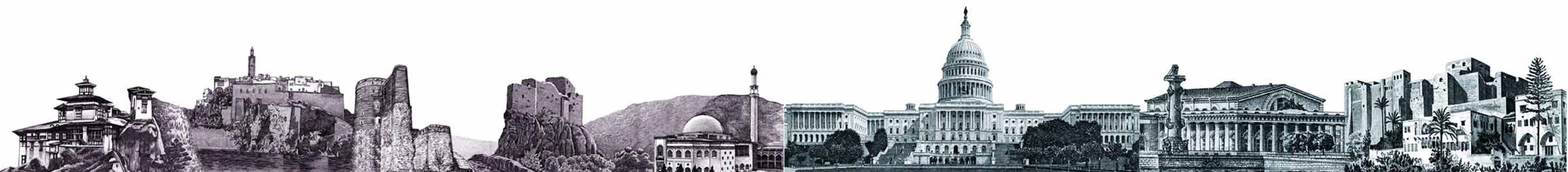
For Schumpeter these monetary innovations were the hallmark of capitalism: 'the development of the law and practice of negotiable paper and of "created" deposits is the best indication we have for dating the rise of capitalism' (Schumpeter 1994 [1954]: 78). As a network, the banking system is able to generate an elastic production of credit-money by the creation of debt in a self-generating process, as 'banks can always grant further loans, since the larger amounts going out are then matched by larger amounts coming in' (quoted in Ingham 2005: 377).

The Bank of England, founded in 1694, was financed with £1.2 million of capital provided by the London merchants. This was then loaned to William and his government at 8 per cent interest which, in turn, was funded by taxes and customs duties. The loan and the king's promise of repayment were considered to be the Bank's asset, and consequently became the basis for a further loan issue of its banknotes to private borrowers, for the same amount of £ 1.2 million. In essence, the norms of new banking practice had doubled the money available to the economy. Essentially the same process for manufacturing money was replicated over the next century in hundreds of local banks. Borrowers' private debts to banks created the deposits which became public money when spent. The Bank of England's notes and bills, which were based on the sovereign debt, were in greatest demand, and the Bank would exchange the notes and bills of local banks in exchange for its own at a discount and eventual profit. Consequently, Bank of England notes, denominated in the same money of account as the Royal Mint's currency, were spread widely across the country.

The money market — Schumpeter's 'headquarters' of capitalism — links the demand for money with the supply, but the relationship between the two sides is quite different from that to be found in other markets. In the first place, the supply of money, unlike the supply of goods, cannot be permitted freely to respond to demand for the financing of production and consumption in both the private and public sectors. If money is not made relatively scarce in relation to the production of goods, ceteris paribus, inflation might result. Moreover, if money could be freely produced there would be little incentive to acquire it through work. Natural scarcity and costs of production set some limits to the production of precious-metal money, but modern capitalist money requires different methods for controlling its supply. Here, as we have seen, the creation of money is based exclusively on the creation of debt. States produce money by 'fiat' — that is, simply by writing cheques that their central banks promise to accept from the recipients. Similarly, private bank credit-money is produced by the creation of deposits for its borrowers. This non-precious metal 'fiat' money — existing only as entries in ledgers, paper notes, and electronic impulses and so on - can only be made scarce by the rules and norms that govern the contracting of debt by the state and the private sector.

In essence, states and their central banks must try to establish the 'working fiction of an invariant standard' (Mirowoski 1991: 579). That is to say, they must establish credible inflation credentials in order to sustain the creditworthiness that enables them to raise finance for spending by selling government bonds to the money markets (see Ingham 2004: 144-50, 152-8). However, as all sociologists and anthropologists should know, this method has obvious limitations. They would not be surprised to learn that one of the most knowledgeable financial writers in the USA thinks that the Federal Reserve's staff now do not have a very clear understanding of what they are doing, or even what they think that they are doing. Ironically, it would seem that as the monetary authorities have striven, in recent times, to make the system more transparent and subject to formal rules of operation, it has become less intelligible.

In conclusion, capitalist societies vary in the money-market institutional arrangements that link their states, central banks and banking systems, but they share certain fundamental features: (i) the private credit and the banking system 'money multiplier'; (ii) state debt as the ultimate foundation of credit-money; (iii) the pivotal role of the central bank; and (iv) the three-cornered struggle between state, money market and taxpayer. Arguably, the most structurally fundamental struggle in capitalism is not that between productive capital and labour, but rather between debtor (producers and consumers of goods) and creditor (producers and controllers of money) classes and centres on two rates of interest — the long and the short. (The state has its own interest as a debtor, but is also the site of the struggle.) Rates of interest represent benchmarks, or terms of reference, for 'settlements' between conflicting groups. For example, real



Frank Perrin, 2010
Building Money
Montage of banknote
graphic elements

(nominal rate minus inflation rate) rates of interest should neither be high enough to elicit a shift of capital from production, jeopardizing income generation for the servicing and repayment of debt, nor fall to a point that demotivates creditors. The central banks are the main mediators of these struggles, and all the recent changes in their organization and operation express the resurgence of money-capitalist creditor power.

References

Aglietta, M. and Orléan, A. (eds) (1998) "*La Monnaie souveraine*", Paris: Odile Jacob. / (eds) (2002) "*La Monnaie entre violence et confiance*", Paris: Odile Jacob.

Bell, S. (2001) "*The role of the state and the hierarchy of money*", Cambridge Journal of Economics 25: 149-/63.

Bloch, M. (1954 [1936]) "*Equisse d'une histoire monetaire de l'Europe*", Paris: Armand Colin.

Carruthers, B. and Babb, S. (1996) "*The color of money and the nature of value: greenbacks and gold in post_/bellum America*", American Journal of Sociology 101(6): 1556_/91.

Champ, B. and Freeman, S. (2001) "*Modeling Monetary Economics*", Cambridge: Cambridge University Press. Dodd, N. (1994) "*The Sociology of Money*", Cambridge: Polity Press (2005) "*Reinventing monies in Europe*", Economy and Society 34(4): 558-83.

Einaudi, L. (1953 [1936]) "*The theory of imaginary money from Charlemagne to the French Revolution*", in F. Lane and J.

Ellis, H. (1934) "*German Monetary" Theory 1905_/1933*, Cambridge, MA: Harvard University Press.

Fetter, F. (1936) "*China and the flow of silver*", Geographical Review 26(1): 32_/47.

Gardiner, G. (1993) "*Towards True Monetarism*", London: Dulwich Press. (2004) "*The primacy of trade debts in the development of money*", in Wray (2004).

Goldsmith, R. (1987) "*Premodern Financial Systems*", Cambridge: Cambridge University Press.

Goodhart, C. (1998) "*The two concepts of money: implications for the analysis of optimum currency areas*", European Journal of Political Economy 14: 407-/32; also in Bell and Nell (2003).

Gowan, P. (1999) "*The Global Gamble*", London: Verso.

Grierson, P. (1977) "*The Origins of Money*", London: Athlone Press.

Hawtrey, R. (1919) "*Currency and Credit*", London: Longman.

Henry, J. (2004) "*The Social Origins of Money: the case of Egypt*", in Wray (2004).

Hicks, J. R. (1989) "*A Market Theory of Money*", Oxford: Oxford University Press.

Hoover, K. (1996) "*Some suggestions for complicating the theory of money*", in S. Pressman (ed.) "*Interactions in Political Economy*", London: Routledge.

Hudson, M. (2004) "*The archaeology of money: debt vs barter theories of money*", in Wray (2004).

Ingham, G. (2001) "*Fundamentals of a theory of money: untangling Fine, Lapavitsas and Zelizer*", Economy and Society 30(3): 304-23. / (2004) *The Nature of Money*, Cambridge: Polity. / (ed.) (2005) "*Concepts of Money: Interdisciplinary Perspectives from Economics, Sociology and Political Science*", Cheltenham: Edward Elgar.

Innes, A. Mitchell (1913) "*What is money?*", Banking Law Journal May: 377-408; reprinted in Wray (2004). / (1914) "*The credit theory of money*", Banking Law Journal January: 151-/68; reprinted in Wray (2004).

Keynes, J. M. (1930) *A Treatise on Money*, London: Macmillan.

Kiyotaki, N. and Wright, R. (1989) "*On money as a medium of exchange*", Journal of Political Economy 97: 927_/54.

Knapp, G. (1973 [1924]) "*The State Theory of Money*", New York: Augustus M. Kelly.

Lapavitsas, C. (2005) "*The social relations of money as the universal equivalent: a response to Ingham*", Economy and Society 34(3): 389_/403. Marx, K. (1976 [1867]) Capital Vol.1, London: Penguin.

Menger, K. (1892) "*On the origins of money*", Economic Journal 2(6): 239_/55.

Mirowski, P. (1991) "*Post-modernism and the social theory of value*", Journal of Post-Keynesian Economics 33(2): 565_/82.

Orléan, A. (2005) '*Crise de souverainete' et crise mone'taire: hyperinflation allemande des annees 1920*', in B. The'ret (ed.) *La monnaie de'voile'e par ses crises* , Paris: Odile Jacob.

Radford, R. (1945) "*The economic organization of a POW camp*", Economica 12: 189-201.

Schumpeter, J. (1994 [1954]) "*A History of Economic Analysis*", London: Routledge.

Searle, J. (1995) "*The Construction of Social Reality*", Harmondsworth: Penguin.

Searle, J. (2005) "*What is an Institution?*", Journal of Institutional Economics, 1(1): 1-/22.

Simmel, G. (1978 [1907]) "*The Philosophy of Money*", London: Routledge.

Smithin, J. (2003) "*Controversies in Monetary Economics*", revd edn, Cheltenham: Edward Elgar. Von Glahn, R. (1996) "*Fountain of Fortune: Money and Monetary Policy in China*", 1000_/1700, Berkeley, CA: University of California Press. Weber, M. (1978) Economy and Society, Berkeley, CA: University of California Press.

White, H. (1990) "*Interview*", in R. Swedberg Economics and Sociology: Conversations with Economists and Sociologists , Princeton, NJ: Princeton University Press.

Wood, D. (2002) "*Medieval Economic Thought*", Cambridge: Cambridge University Press.

Woodruff, D. (1999) "*Money Unmade: Barter and the Fate of Russian Capitalism*", Ithaca, NY: Cornell University Press.

Wray, R. (1998) "*Understanding Modern Money*", Cheltenham: Edward Elgar.

Wray, R. (ed.) (2004) "*State and Credit Theories of Money: The Contribution of A. Mitchell Innes*", Cheltenham: Edward Elgar.

Geoffrey Ingham *studied sociology in the universities of Leicester and Cambridge. He is currently Emeritus Reader University of Cambridge and Life Fellow of Christ's College, Cambridge. He is the author of the Nature of Money and Capitalism (Cambridge: Polity).*

TWILL #14 - WWW.TWILL.INFO

BIMONETARISM

SEMINAL PRINCIPLES FOR A SOCIOECONOMIC REVOLUTION

Samuele Liosca

PREMISE

As Myrdal once argued (Objectivity in Social Research 1969), researchers should state explicitly their value judgements and inclinations, for clarity of interpretation and to disclose potential biases. To honour this principle, the author of this paper hereby declares neutrality, in the sense of not leaning to the left, as some readers may later suppose. To be more precise, a libertarian and individualistic conception of society inspires my vision. I have also to admit a disposition rather intolerant of authority and any imposed rule of conduct, not excluding reasonable and minimal constraints like seat belt laws. Freedom is at the top of my hierarchy of values and, admittedly, this may not be so for the majority of people, but this aspect will be duly discussed in this paper. To provide a fertile ground for my vision, in our affluent times, society should be organized according to principles that are fair, equitable and that can accommodate the varied nature of its members. Basically, a socioeconomic order where the agents are maximally free to exert their individual talents – while being limited in their anti-social propensity. And where the economic rules are conceived to maximise the free use of their positive qualities rather than optimize the allocation of scarce resources. I would say, to reference the above disclosure to known contexts, that my ideals are exactly the opposite of what communism has been and can be, but not entirely in resonance with the current capitalistic principles.

INTRODUCTION

There is little doubt that capitalism has served well the purpose of accelerating the creation of wealth, and that this process has benefited the whole of society. The paradox is that capitalism's rootless approach, overall, has brought more prosperity to the underclass than the merciful communist system that was supposed to rescue the 'workers' from the 'predatory' nature of capital. And the advocates of the system, by using the same logic that would assert martial law as the best system of administering justice, only because it has proved its efficacy in times of war, see in this paradox the proof that market, profit and capital are the best recipe for keeping a society healthy and flourishing; especially if they are left unchecked. But it could well be that a good system to expedite the improvement of the condition of man, when a large part of the population is in a state of precarious survival, becomes inadequate when the situation is reversed. And, beside the fact that the terms 'prosperity' and 'healthy' should be better defined, any serious analysis should go much deeper than looking at tall skyscrapers, crowded highways and iPhones. In the good old times, prolific with new theories, the economic order was a popular subject among philosophers. In the past decades, such speculative urge of advancing the existing social structure has been confined to small enclaves of scholars or to utopian freaks. Mainstream economists have preferred to accredit the current capitalistic arrangement as the optimal end point of an economic evolution that they, the custodian priests, have only to keep in good shape. Accordingly, their theories have been instrumental to their role of treasures of the system whose self assigned mission was that of guarding the working fiction of the invariant monetary standard. That is, to maintain in a state of equilibrium the unstable balance between inflation and deflation, with the least possible damage to employment and capital – the latter being usually kept in higher regard. But there is an even larger responsibility that they see lying on their shoulders: that of keeping intact the credibility of the credit-money construction whose solvency has to be continuously pushed into the future. And yet, extraordinary post-war developments have radically changed the very elements that should be at the basis of economic thinking – the technological capability, organization, polity and wealth of society. Regrettably, these changes have not inspired the conception of any successful new theory that could match the progress of other areas of academic study. With no ambition of filling such a gap, I'll throw in a few ideas by arguing that the crux of the matter is not in the instability of capitalism whose alleviation has been the main concern of economics; I believe that the long term vulnerability of the capitalistic social engine is in its conceptual unfairness and in its dependence on endless growth. And it is for the sake of manageability, not for ignorance or despise