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DIALOGUE AND DEBATE: SYMPOSIUM ON STEFAN EICH'S THE CURRENCY OF POLITICS (PART II)

The limits of currency politics

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Abstract

In Locke's philosophy money is 'naturalised' and thus ostensibly removed from political contestation. Locke has been criticised for marginalising monetary politics, and thus downplaying the conventional character of money that could potentially allow for democratic monetary reform. Drawing on Marx's writings, this paper shows that money is indeed a social convention, but its inherent economic functioning restricts its susceptibility to political contestation. There are limits to the democratic reform of money in a capitalist economy that spring from money's own nature.

Specifically, the politics of money is rooted in the tension between money as measure of value and money as unit of account. The state draws political power from setting the unit of account, but the measurement of value occurs spontaneously among commodity producers, thereby generating tension that curbs monetary politics. In contemporary conditions, this is typified by central banks having the freedom to manage the unit of account but subject to heavy economic constraints rooted in value measurement. In this light, democratic monetary reform requires restricting the spontaneous measurement of value, thus intervening at the heart of the capitalist economy. For money to be democratic it needs to have a much narrower range of economic functioning.

Keywords: Locke; Marx; monetary theory; credit money; capitalism, monetary reform.

1 Monetary theory and monetary politics

Economic theory generally downplays monetary politics, and indeed 'depoliticises' money. The intellectual origins of this approach can be attributed to Locke, as has most recently been argued by Eich.[1] By advancing a critique of Locke, Eich aimed to re-politicise money and more specifically to democratise it. The point of departure in this pursuit was the claim that money is a social convention, and thereby inherently pliable and amenable to political manipulation. Eich's work is thus an excellent opportunity to reconsider the politics of money.

To achieve his aim Eich produced a meticulous 'stratigraphy' of the political content of monetary thought from Aristotle to Keynes. His 'stratigraphy' begins with Aristotle, who treated money as an inherently political institution rather than as an economic entity that could (or should) be 'depoliticized'. Eich[2] then draws a sharp contrast with Locke, who similarly believed that money was established through the 'common consent' of humanity but erected a façade of 'depoliticization' over it. The rest of his book tilts heavily in favour of Aristotle: money is fundamentally a political institution that could be reformed and, crucially, democratised.

[1]S Eich, *The Currency of Politics* (Princeton University Press 2022) Chapter 2. This book puts the unadventurous output of mainstream economics to shame and stands out for its ambition, scholarliness, and challenge to various orthodoxies.

[2]Ibid., 63.

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It is striking that Eich's 'stratigraphy' treats Marx as an important monetary theorist, a stance unknown among mainstream (mostly Anglo-Saxon) economists, who typically dismiss Marx's economics and, if they have the vaguest idea about it, treat his monetary theory with disdain.[3] Eich[4] candidly states that the initial motivation for his book, despite its focus on Locke, was to explore Marx's extraordinary footnotes on the history and politics of money in the opening chapters of *Capital*.

If I am allowed a little personal indulgence, these footnotes were also my own initial motivation for delving into Marxist monetary theory. What is the relationship between the giants of thought inhabiting these footnotes and Marx's own, often highly abstruse, analysis of money and value in *Capital*? This question pertains even more to the text and footnotes of the *Contribution to the Critique of Political Economy*, a book that, as Eich[5] rightly says, is 'now rarely read beyond the preface', famous as that might be.

Summarily put, Marx's discussion of the politics and history of money in these texts is crucial to analysing the politics of contemporary money, but also draws the boundaries of monetary politics by placing money in the context of fundamental economic relations. Put still differently, Marx grounded monetary politics on monetary theory, thus implicitly circumscribing the democratisation of money within a capitalist economy.

It helps in this connection to note a sharply different assessment of Aristotle's approach to money by Ferdinando Galiani, an exceptional monetary theorist of the 18th century who regularly turns up in Marx's footnotes.[6] Galiani cites one of Aristotle's best-known passages on money from the *Nicomachean Ethics*:

> Aristotle, a great genius and a man of wonder, has laid bare many fine considerations concerning the nature of money . . . as follows: τὸ νόμισμα γέγονε κατὰ συνθήκην· καὶ διὰ τοῦτο τοὔνομα ἔχει νόμισμα, ὅτι οὐ φύσει ἀλλὰ νόμῳ ἐστί, καὶ ἐφ᾽ ἡμῖν μεταβαλεῖν καὶ ποιῆσαι ἄχρηστον. [*money emerged by convention. And for that reason, it bears the name nomisma, because it exists not by nature but by law, and it is in our power to transform it and make it useless*]'[7]

and then remarks:

> If this philosopher has ever been heeded in his teachings more than is appropriate, it would be in this matter, to our detriment . . . I myself, more than all others, have done my utmost to show . . . that not only the metals comprising money but every other worldly thing, barring none, has its natural value derived from certain, general, and invariant principles; that neither whimsy, law, nor princes, nor anything else can violate these principles and their effects.[8]

For Galiani, then, money has its own principles of conduct, associated with its value, which are not a matter of political, legal, or other power. These principles must be ascertained through monetary theory to provide a frame of reference for the political analysis of money. If, as per Aristotle, humanity is to reform money – even, make it 'useless' – it must first grasp money's inner workings.

[3]The causes of this are unclear in the history of economic thought and are ultimately moot given that monetary theory was an enormous part of Marx's work. The strongly philosophical mode of his exposition is one probable reason since it remains alien to swathes of social scientists. Another, less profound but no less influential, culprit is his misleading classification as a 'metallist', for which Schumpeter (J A Schumpeter, *History of Economic Analysis* (George Allen & Unwin 1954 [1986]) 289–90) must take a large part of the blame.

[4]Eich (n 1) 127.

[5]Ibid., 125.

[6]Thanks are due to Nicos Theocarakis for drawing my attention to this point.

[7]F Galiani (1751) [1977, *On Money* (translation of *Della Moneta* by P. Toscano) (Department of Economics, University of Chicago 1751 [1977]) 20–1. The translation of the passage from Aristotle quoted by Galiani is by the author.

[8]Ibid.

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Marx's writings on money are pervaded by a similar spirit: money is indeed a social relation and as such is receptive of political intervention, but also has its own economic functioning that sets limits to monetary politics. This approach is not at all to 'naturalise' money, similarly to Locke. It is, rather, to stress that economic conventions are typically embodied in institutional, productive, transactional, behavioural, and property forms, the interconnected functioning of which requires economic theory that cannot be overlooked by political and other reformers.

Money is perhaps the most distinctive and crucial of such social conventions in a capitalist society, and thus its politics calls for explicit reference to monetary theory. There exists, to be sure, erroneous theory that could lead to disastrous monetary policy. But even the question of what allows erroneous theory at times to prevail is important in analysing monetary politics.

Marx's celebrated footnotes cast light on this issue, although his theory is far from faultless, as is also pointed out below. His distinction between money functioning as measure of value and as unit of account (or standard of price) is key to the politics of money. The intervention of the state in the monetary realm is grounded on its ability to set the monetary unit of account for prices. But the measurement of value by money is the result of spontaneous action by economic agents who are largely beyond the control of the state in a freely operating capitalist economy. Monetary politics is circumscribed by the interplay of the two functions according to historical and institutional conditions.

The analytical terrain opened by these issues is obviously vast and cannot be covered in a short essay. Consequently, the following sections focus primarily on Locke's writings, the chief theoretical source of money's 'depoliticization', according to Eich. The first step is briefly to outline the historical and institutional background of the English monetary debate that Locke dominated. The article subsequently considers the politics of contemporary credit money through the lens of Marxist monetary theory. This requires further brief reference to the great British monetary debates of the 19th century. The aim is ultimately to draw a sharper theoretical outline of what is entailed by the democratisation of money in the contemporary capitalist economy.

2 Redenominating a metallic currency

In the 1690s England was an agrarian country with a landowning class that drew its income primarily from rack-rents. Industry was limited and international trade was the privileged domain of joint-stock trading monopolies. The triangular trade of importing Barbados sugar and Virginia tobacco produced by slave labour transported from West Africa had also taken definite shape.[9]

There were goldsmiths operating as private bankers as well as 'scriveners' – essentially money-dealers – who typically engaged in currency speculation.[10] But there was no banking as that would be understood today, ie, financial enterprises systematically issuing liabilities acting as money to fund the acquisition of debts issued by non-financial enterprises.

The money of England was primarily silver coin, although gold was also minted. Typically, the coin in circulation suffered from abrasion, clipping, sweating, and innumerable other ways of cheating and counterfeiting. In the 1690s the silver currency of England carried barely half its stipulated weight.[11] But that was far from all. The decade bore the brunt of the Nine Years War, a large-scale engagement in which England maintained an army on the Continent requiring the transmission of enormous funds in silver, which the King had to borrow.

[9]The literature on the economic history of Britain since the later 17th century is enormous. For the brief sketches of the British economy given throughout this article, I have drawn on the classic work of P Deane and WA Cole, *British Economic Growth, 1688–1959* (Cambridge University Press 1962), but also on ES Morgan *American Slavery, American Freedom* (W.W. Norton 1975), E Floud and D McCloskey (eds), *The Economic History of Britain since 1700* (in three volumes) (2nd edn, Cambridge University Press 1994) and K Pomeranz *The Great Divergence* (Princeton University Press 2000).

[10]MH Li, *The Great Recoinage of 1696 to 1699* (Weidenfeld and Nicholson 1963) 33 reckons that in 1695 there were only 12 to 14 goldsmiths and bankers in England, down from 44 in 1677.

[11]W Lowndes, *A Report Containing and Essay for the Amendment of Silver Coins* (Charles Bill and Thomas Newcomb 1695) 159.

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The loss of metallic content together with heavy pressure to make payments abroad meant that the exchange rate of sterling frequently fell, the market price of silver bullion rose above the mint price of silver, and the value of gold coin rose dramatically above that of silver coin. The melting pots of goldsmiths and scriveners worked overtime, taking advantage of the excess of bullion above the mint price, melting down heavy coins and sending the metal abroad.

There was no doubt that the country needed to put its monetary affairs in order, but the question was how.[12] Into the breach stepped William Lowndes, Chancellor of the Exchequer, who produced a remarkable report proposing to redenominate the currency by cutting a new silver coin of the same fineness as the old but with less weight. The inevitable losses would be covered in large part by the state, to which purpose Lowndes intended to raise taxation as well as issuing short-term government borrowing instruments.

Altering the denomination of money by lowering its metallic content (or reducing its fineness) was the age-old practice of medieval kings to 'raise' the currency. An obvious benefit to the state was to reduce the burden of royal debts, while creating an opportunity to augment seigniorage. Merchants and others could also potentially profit by having their silver cut at a higher price, thus bringing bullion into the mint. By the same token, bankers and money-dealers across Europe could speculate by exporting bullion across borders.

Lowndes was fully aware of these possible outcomes, but his concern was very different. He wished to tackle the existing degradation of the coinage, while also confronting the rise of bullion above mint price in large part due to the military expenses of England abroad. In effect, he proposed to devalue the English currency, thereby releasing some of the enormous monetary pressures that had accumulated in the preceding period. His proposed 'rise' in the currency was roughly equal to the actual excess of bullion price above mint price.

Note that, by lowering the silver content of the pound, Lowndes would be significantly reducing the cost of restoring the currency, and much of the lowered cost would be borne by the state. This was the first time that England would be undertaking a recoinage which, far from resulting in a tidy profit for the King, would shift some of the cost onto the state. Lowndes's proposal was thus fully consistent with the bourgeois transformation of English public finances already under way in the 1690s.[13]

Lowndes, however, blotted his own copybook by claiming that the value of silver as commodity had also risen and therefore the new coins would not have less value despite having less weight.[14] This gave Locke ideal grounds for a frontal assault.

3 Locke intervenes – the economics of fixing the value of money

Locke's best-known monetary publications[15] were a direct response to Lowndes's document.[16] In truth, it is not a great performance either in monetary theory or in monetary

[12]AE Feavearyear, *The Pound Sterling: A History of English Money* (Humphrey Milford, Oxford University Press 1931) 122 noted that Parliament debated several bills and reports after 1689 but without taking a decision. In a pamphlet that was little read at the time, D North, *Discourses upon Trade* (originally published in 1691), now in JH Hollander (ed), *Reprints of Economic Tracts* (Lord Baltimore Press 1907) 31, stated: 'The general Opinion is, That it cannot be done otherwise, than by calling in of all the Old Money, and changing of it, for doing which the whole Nation must contribute by a general Tax; but I do not approve of this way for several Reasons'. What North suggested was that traders should bear the bulk of the loss.

[13]The so-called Financial Revolution of England; see PGM Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit, 1688–1756* (Macmillan 1967).

[14]Lowndes (n 11) 77–82.

[15]J Locke, *Short Observations on a Printed Paper*, originally published in 1695, now in *The Works of John Locke*, vol 4 (C. and J. Rivington, 1824, 12th edition) 117; J Locke, *Further Considerations Concerning Raising the Value of Money*, originally published in 1695, now in *The Works of John Locke*, vol 4 (C. and J. Rivington, 1824, 12th edition) 131.

[16]Locke, *Some Considerations of the Consequences of lowering the Interest and raising the Value of Money*, originally published in 1691, now in *The Works of John Locke*, vol 4 (C. and J. Rivington, 1824, 12th edition) 1. Locke had already published another monetary pamphlet, which had been written two decades earlier, arguing against a ceiling on the rate of interest, the level of which he believed ought to be naturally arrived at by the market. The ceiling on interest was hotly debated

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policy.[17] Locke's fundamental supposition is that money has an 'imaginary' value, which makes money the 'common pledge' among participants in exchange and is attached to its metallic content. The 'imaginary' value of money is also 'intrinsic' and, as such, it amounts purely to a quantity of metal.[18] Based on this manifestly jumbled argument, Locke claimed that a transaction involving the payment of a sum of money amounted to the payment of a definite weight of silver according to the stipulation of the mint price.

It followed that, for Locke, an excess of bullion over mint price implied degradation of the coinage, and nothing else. That must have been the underlying reason for the excess since a given weight of silver would only exchange for the same weight of silver (of the same fineness). No one would pay more silver in standard weight coins to obtain the same weight of silver bullion. Lowndes's argument that the redenominated coin would have the same value as before was nonsense.

It is not exactly an intellectual breakthrough that a thing possessing a certain value would not exchange for the same thing possessing less value. The problem is that this truism took Locke down a profoundly misleading path in monetary theory. The easiest way to see that is in terms of the international determinants of bullion price, given a metallic currency.

In Locke's time states and merchants had to make payments contractually specified in foreign units of money, not in weight of metal. To deliver the requisite units of money they could deploy several different methods, including borrowing funds from foreign lenders, or acquiring bills of exchange. The price paid in terms of domestic currency (the exchange rate) naturally reflected transactions costs, and thus entailed a premium or a discount depending on conditions in the markets for loans and bills.

Consequently, the market exchange rate, if it was translated into the ratio of equivalent quantities of silver, would necessarily differ from the ratio of silver weights formally assigned to domestic and foreign coins by their respective mints. Moreover, if final payments had to be made with metal because, say, neither loans nor bills were available in the markets at reasonable cost (or even at all), the price paid for the requisite bullion would also reflect the market tightness, thus necessarily diverging from the formal mint prices.

Such divergences were inherent to the international functioning of metallic money and had nothing to do with the putative degradation of coin. To be sure, Locke was fully aware of the labyrinthine paths of international trade and finance.[19] He had, after all, differentiated between the 'intrinsic' value of money and its 'extrinsical' value, although the latter term appeared very rarely

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in the decades preceding redenomination, and there was a strong demand for lowering it among English mercantilists. See J Child, *Brief Observations concerning Trade and Interest on Money* (Printed for Elizabeth Calvert at the Black-spread Eagle in Barbican, and Henry Mortlock at the Sign of the White-Heart in Westminster Hall 1688) now available at <https://avalon.law.yale.edu/17th_century/trade.asp> *and* T Culpeper, *The Necessity of Abating Usury Re-Asserted* (Christopher Wilkinson 1670) available at <https://archive.org/details/bim_early-english-books-1641-1700_the-necessity-of-abating_-culpeper-thomas-younge_1670>. Their works were of modest value in economic theory but Locke's contribution, which is far more coherent as text, also failed to break new theoretical ground. Throughout the pamphlet he showed no appreciation of the difference between loanable money capital and plain money. Thus, Locke, in *Some Considerations*, quoted in this footnote, at pages 36–37 ended up equating interest to rent, finding its accrual 'equitable and lawful' since the borrower is a 'tenant' on other people's money.

[17]JR McCulloch, *The Literature of Political Economy* (Longman, Brown, Green, and Longmans 1845) included a brief but glowing reference to Locke's monetary contribution because it helped avert 'the degradation of the standard' (page 156), an article of faith by the time McCulloch produced his survey. British economists after the First World War, a time when the Gold Standard had effectively ended, were far more derogatory. RG Hawtrey, *Currency and Credit* (Longmans, Green and Co 1919) thought that Locke had 'completely missed the point at issue' (294). A few years later, CR Fay, in his Locke versus Lowndes 4 (1933) The Cambridge Historical Journal 143 was withering in his dismissal: 'He was like those general historians who shrink from the subtleties of economic thought because it appears to be leading them to conclusions which they believe to be politically impossible.' (at 149).

[18]Locke (n 16) 22.

[19]Locke (n 15, *Further Considerations*) 149–50 and 195–6.

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in his writings and typically in relation to Lowndes, who had used it extensively.[20] 'Extrinsical' value was somehow related to coins as 'counters' and was thus arbitrary. However, Locke's monetary theory showed no inclination to tackle the peculiar 'extrinsical' function of money as unit of account and in relation to the metallic money used for payment.

Locke was fully content with the misleading view that an obligation to pay money could be interpreted as an obligation to deliver a definite weight of silver originally set by the mint. From this perspective, 'raising' the currency was plainly an attempt to 'defraud' lenders and those on fixed incomes, including powerful institutions, such as the church and the universities. It would 'weaken, if not totally destroy, the public faith' of all those who had trusted parliament and other authorities.[21] At bottom, redenomination was a matter of political stability, and even of morality.

His critics were aware that contracts struck among merchants were denominated in units of account, to be settled in the legal money of the realm and not in quantities of silver. In a sharp attack, Temple[22] stressed that 'the money of every country, and not the ounce of silver, or the intrinsick value, is the instrument and measure of commerce there, according to its denomination'. Barbon also claimed 'that 'tis the Current and Lawful Money of England that Men contract and sell their Goods for, and in their Bonds and Leases Covenant to pay'.[23] The travails of money as the unit of account were vital to contractual obligations, but Locke was not interested. As Fay put it, 'The detachment of the money of account from its old weight and fineness was something that Locke was not prepared to comprehend.'[24]

The weakness of Locke's monetary theory became clear when practical policy moved to the foreground. Locke had sharply rebuked Lowndes[25] but what were his own policy proposals? He was in favour of rapid redenomination using the old weight and fineness of silver money, while clipped money would pass at its 'true value' until replaced, and perhaps some smaller denominations might also be introduced to facilitate retail trade.[26] And those scant paragraphs were pretty much it.

Redenomination did occur based on Locke's presumptions, and the results were disastrous.[27] Calling in old coin took a long time since the mint was incapable of rapidly producing the quantity of new coin required for circulation, while the holders of degraded coin tried to avoid major losses. An escape route was offered to big landowners and rich merchants by allowing tax obligations and subscriptions to public debt to be paid in degraded coin at nominal value. For small artisans, labourers, farmers, and others there was no such offer, and riots occurred. At the same time, the new and heavy coins produced by the Mint rapidly disappeared into the melting pots of goldsmiths, and the bullion was sent abroad. Monetary scarcity escalated and credit shrank, hitting trade and economic activity hard.

Stability did not return until Newton, who was appointed Warden of the mint in 1696 and Master in 1699, put in place measures that allowed for a gradual restoration of metallic currency. The real significance of his policies, however, lay not in relation to silver redenomination but in shifting the monetary base of England toward gold. In the 1690s the ratio of gold to silver was already heavily in favour of the former, thus attracting gold to England, and plenty of it came from Guinea. Merchants transacted profitably in 'guineas' rather than in problematic silver crowns. The country was on its way to the Gold Standard, the foundation of its approaching imperial supremacy.

[20]Locke (n 15, *Further Considerations*) 180.

[21]Ibid., 146.

[22]R Temple, *Some Short Remarks upon Mr. Lock's Book in Answer to Mr. Lounds*, originally published in 1696, now in WM Shaw (ed), *Select Tracts and Documents Illustrative of English Monetary History, 1626–1730* (Augustus Kelley 1967) 113.

[23]N Barbon, A Discourse Concerning Coining the New Money lighter, originally published in 1696, now in *The Complete Works: Economics, Trade, Building and Insurance*, edited by GJ Adams (Newton Page 2019) 226.

[24]Fay (n 17) 149.

[25]Locke (n 15 *Further Considerations*) 182.

[26]Ibid., 202–4.

[27]Feavearyear (n 12) 125–35.

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4 Lockean politics of 'sound' money

In the new reality of gold circulation, Locke's political victory over Lowndes tuned into a triumph. Lockean 'sound money' underpinned the management of British monetary affairs in the 18th and 19th centuries, and even beyond. Others lowered the monetary standard by devaluing their metallic currency, Britain paid in full weight of fine gold.

The telling factor in Locke's ascendancy – despite his demonstrably deficient monetary theory – was his argument that to devalue would be to 'defraud' those on fixed contracts. Its import can be appreciated only in the light of Locke's philosophical analysis of money to be found in the 'Second Treatise on Government', which has been the object of countless studies, but still repays summing up.

In his political philosophy Locke postulated an original 'natural' condition of humanity in which perfect equality and freedom prevailed for all to dispose of their property and persons.[28] The condition was regulated by the 'law of nature' dictating that equal and independent people should respect each other's life, freedom, and property on the grounds of reason. Transgressors could be rightfully punished by all, but this raised the spectre of war. The danger was avoided when humanity quit the 'state of nature'and entered society, which entailed a civil authority that could deliver legal punishment to transgressors.

As is well-known, for Locke individuals were able to acquire property by mixing their labour with what nature provided.[29] The 'law of nature' gave the right to labouring individuals to exclude others from their property, and placed limits to the property that could be acquired. For, the right to property was constrained by the extent to which a person could enjoy the things obtained, and was forfeited when things were spoiled or destroyed, an unpardonable sin for Locke.[30] Land was, thus, rightfully acquired by the industrious and rational, who applied their labour to it. And since there was plenty of land on earth, all could use it without encroaching on each other.

Until money was invented. The 'piece of metal' could keep its value – given to it solely by the 'consent of men' – without being spoiled or destroyed.[31] Money allowed people to accumulate land that produced more than an individual could use since the surplus could be exchanged for money, hence avoiding spoiling and destruction. Deeply unequal possession of land was made possible in society by tacitly consenting to place a value on silver and gold and agreeing to use the metals as money. The result was greater plenty for society as land was more productively used.

It is now possible fully to appreciate the horror of Locke in the face of Lowndes's proposal to lower the silver content of English money. Other monetary theorists of the time, such as North, had already argued in favour of redenominating the currency by using the old standard. Above all, Petty had succinctly laid out the impossibility of increasing national wealth by simply 'raising' the currency, while also arguing against ceilings on interest rates.[32] But such works were still within the realm of monetary policy and theory. For Locke the issue reached the foundations of society.[33] If society were to survive, it was incumbent upon the state not to undermine property and destroy trust by 'defrauding' the parties to contract.

[28] J Locke, *Two Treatises of Government*, originally published 1690, in now in *The Works of John Locke*, vol 4 (C. and J. Rivington, 1824, 12th edition) 341–2.

[29] Ibid., 353–4.

[30] Ibid., 362–5.

[31] Ibid., 366.

[32] W Petty (1682) [1695]. *Quantulumcunque Concerning Money*, originally published in 1682, consulted from (A. and J. Churchill, 1695).

[33] This is common knowledge among social scientists, not least following the seminal contribution of C B Mcpherson, *The Political Theory of Possessive Individualism: Hobbes to Locke* (Oxford University Press 1962). To take one example, according to G Caffentzis in the second chapter of *Clipped Coins, Abused Words, and Civil Government* (Pluto Press, new edition 2021), Locke rejected Lowndes's plan ultimately because it posed a lethal threat to the monetary underpinnings of the bourgeois social order. Caffentzis explored in detail the philosophical dimensions of Locke's opposition to metallic devaluation, but his defence of Locke's economics is not on a par.

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Locke's political philosophy of money was consistent with the fixed-income interests of his time, including those of the dominant landowners. It was also highly expedient for the expropriation of the land holdings of indigenous people by English colonists in the New World. Not least, it favoured lenders, and thus the rapidly emerging institutions of the financial system for which devaluing the currency could potentially be a source of major losses. It is no accident that the Bank of England – of which Locke was a shareholder – was supportive from the beginning.[34]

And yet, Locke's triumph occurred against alternative bourgeois approaches on how to manage the monetary affairs of rapidly ascending British capitalism. There was nothing feudal or pre-capitalist about the views of his opponents. The lower social classes had no voice in the debate, even if they rioted when struck by the disaster of redenomination. Locke won an intra-bourgeois contest, and his views prevailed for a long time afterwards, despite possessing a faulty monetary theory. What does that tell us about the politics of money?

Appleby, in a seminal article,[35] claimed that Locke 'naturalised' money and thus put an ideological restraint on the state by placing money beyond politics, a view that Desan developed critically in her authoritative constitutional analysis of money.[36] In contrast, Eich believes that, rather than 'naturalising' money, 'Locke's plan was a political strategy to depoliticize money's *appearance*, flowing from an understanding of money as all too artificial and malleable.'[37]

For Eich, the chief concern of Locke was to protect the brittle and conventional character of money. When people made bargains, they contracted for quantities of silver, which the state itself had defined. It was incumbent on the state not to tamper with that definition if societal trust was not to collapse. Consequently, the gist of Eich's critique of Locke is that he engaged in a 'performative contradiction': on the one hand, the state defined the metallic content of money but, on the other, it had to desist from alterations. This façade of 'depoliticization' was Locke's way to protect money, and by extension the entire social order hinging on it.

There is no doubt that Locke's political philosophy 'depoliticized' money. Note also that there is a sense in which he did 'naturalise' money by assuming that it is based on tacit consent. For Locke, society and civil government required the explicit – not the tacit – consent of humanity, hence money remained somehow in the condition of 'nature'.[38] The real issue, however, lies elsewhere. If Locke's stance was indeed 'performative', what were the underlying politics as the state defined the metallic content of money in practice? Put otherwise, if Locke's 'depoliticization' is rejected as a façade, does it follow that money is merely a political convention that is amenable to transformation?

These questions cannot be tackled further without directly confronting the problematic aspects of Locke's monetary theory. There is no doubt that money is a malleable social convention, not least in view of contemporary governments regularly intervening in the creation of money's units. But the risk of chaotic disorder is always present due to the underlying economic functioning of money. The politics of money can never be independent of the economics of money, and that also holds for any prospect of transforming money. Marx's theory of money – and his footnotes – can cast light on these issues.

5 Marx's distinction of measure of value and unit of account

Marx, as is well known, derived money as the 'universal equivalent' that emerges spontaneously and necessarily out of the interactions among commodity owners. Money, from this perspective, is the 'social pledge' that commodity producers and traders must always keep by themselves.[39] It is a

[34] Li (n 10) 78–82.

[35] J Appleby, 'Locke, Liberalism and the Natural Law of Money' 71 (1976) Past & Present 43.

[36] C Desan, *Making Money* (Oxford University Press 2014) 353–9.

[37] Eich (n 1) 71–2.

[38] I owe this point to discussions with Stathis Kouvelakis.

[39] K Marx, *Capital*, volume 1, originally published in 1867, now (Pelican Books 1976) 228.

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social convention, the 'nexus rerum (nervus rerum)' that organises economic interaction in a society lacking conscious organisation.

The money commodity, let us say gold, has value associated with its material which is not 'imaginary' but stems from the conditions of its production. Moreover, the value of the money commodity – as of all other commodities – has both substance and form. For Marxist monetary theory, the divergence between the bullion price and the mint price of metallic money ultimately reflects the complex relationship between the substance and the form of its value.[40]

In a little more detail, the substance of gold's value is the quantity of abstract labour embodied in unit of gold, but the form taken by that value does not correspond directly and immediately to its substance. Rather, value appears in a highly mediated way, and the mediations are fundamental to analysing money's international and domestic circulation.

Crucial in this respect is that the money commodity has two units.[41] The first is its physical unit resulting from the production process, ie, a troy ounce of gold. The second is – to devise a term – its political unit resulting from the arbitrary division of the physical unit, typically by the state. Thus, after the British recoinage of 1816, a troy ounce of fine gold was divided into £3 17s 10½d, and that became the mint price of gold, defining the metallic content of the pound. The political unit acts as unit of account, or standard of price, setting the prices of commodities and contractual monetary obligations.

This point is of paramount importance for both monetary theory and the politics of money. When metallic money is in use, the value of commodities relates to the value of money through the physical unit of the money commodity in the first instance. Value measurement is a process that occurs spontaneously for all commodities – including the money commodity. Essentially it amounts to establishing proportions in practice – ie, through actual exchange – between the physical units of commodities and the physical unit of money, based on their value content.

It cannot be overemphasised that value measurement occurs as social practice and is the outcome of countless spontaneous actions by commodity producers and traders. Measuring the value of commodities is not an abstract exercise that could take place in the inner courts of a temple, or the study of a scholar; it is a real process requiring repeated and regular acts of exchange, and often involving error. By the same token, when money acts as measure of value it simultaneously acts as means of exchange, and these two functions cannot be separated in practice.

To put it in slightly different terms, the measurement of value emerges out of the incessant exchanging of the money commodity for other commodities. For each commodity value measurement stands out as a collective result that is also a benchmark for further exchanges. In a capitalist economy this collective measurement occurs against production that systematically creates value as abstract labour, thus making commodities commensurate with each other and fastening the measurement of value onto the material realities of the economy. The money commodity is the object that enables measurement and is thereby the entity that webs myriads of disparate acts into an organic whole through its own flows. The 'nervus rerum' acts blindly as it measures value – it is the 'social pledge' in the dumb form of a commodity.

But value measurement, real as it is, does not set prices – commodity values are not expressed in troy ounces of gold. Value becomes price when the proportions of commodities relative to the physical unit of money (gravitating on the underlying proportions of values created in production) are expressed in terms of a further convention, namely the political unit of the money commodity. The great merit of this additional convention is that it implicitly guarantees the

[40]The summing up of Marxist monetary theory in the following pages draws on my critical reading of Marx's work and that of other Marxists.

[41]K Marx, *A Contribution to the Critique of Political Economy*, first published in 1859, (Progress Publishers 1970) 64–76; Marx (n 39) 188–98.

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quantity and fineness of the monetary metal. A bag of gold, after all, must be weighed and assayed and that is always a hindrance to rendering value as price.

The contrast between value measurement and price standardisation is sharp. The conventional division of the physical unit of the money commodity into political units is a highly abstract process that could indeed occur within the walls of a committee room. It is a purely mental exercise, the fixing of a monetary numeraire, that could potentially generate a range of different nomenclatures of prices, not to mention monetary obligations and other equivalences.

However, the abstraction rests on actual value measurement, that is, on the collective action of commodity producers and traders making commodities commensurate in practice. This collective action occurs by using the coins that the state has cut and involves acts that are anything but abstract: the measurement of value by the metallic body of money becomes actual price as commodities are swapped for coins. Thus, wise bureaucrats and gifted intellectuals operate on a terrain that capitalist society prepares for them.

The ability to fix the unit of account nonetheless affords to the state enormous power in the monetary field. The accounting unit needs social acceptability, and the state is the social institution that could best facilitate its accrual in a variety of ways, including through taxation and public spending, not to mention the legal apparatus of contract. And since monetary power is a constitutive part of the state's broader social and political power, fixing the unit of account is a privilege that states normally defend with vigour.

The relationship between, on the one hand, measuring value in money's physical units and, on the other, expressing it as price in money's political units is the original terrain of monetary theory. There is no direct correspondence between the two renderings of commodity value by the monetary metal. For one thing, the value of metallic money constantly varies as the techniques of production change, not to mention the physical availability of the monetary metal. For another, the standardisation of metallic money by the state is a political decision that inevitably has a voluntary component. Navigating this relationship requires complex monetary theory, and that is precisely what Locke eliminated from his analysis.

6 Anchoring the politics of commodity money

It is almost superfluous to say that the notion of money as unit of account did not originate in Marx's monetary theory. Participants in the monetary debate of the 1690s were certainly aware of it, as was previously noted. Cantillon was also familiar with it in his analysis of the implications of 'raising' French coin.[42] The subsequent decades witnessed its fuller development. Thus, Galiani offered a remarkably sophisticated analysis – which influenced Marx – of 'money *of account*, that is to say, money with which one counts, contracts, and values every other thing'.[43]

But the strongest sway on Marx was exercised by Steuart, who extensively discussed the unit of account and its relation to money in actual use. For Steuart 'Money, which I call of account, is no more than *an arbitrary scale of equal parts, invented for measuring the respective value of things vendible*'.[44] Steuart took that to be an ideal unit that is imperfectly approximated by the real money (coin) used in practice. Marx disagreed with him on this point, despite admiring his monetary analysis.

For British economists after the First World War, money as unit of account was crucially important to monetary theory. Thus, Hawtrey devoted the entire first chapter of his major work to analysing the functioning of 'money of account'.[45] Similarly, Keynes opened the *Treatise on Money*

[42] R Cantillon, *Essay on the Nature of Trade in General*, originally published in 1734 (Liberty Press 2015, translated, edited, and introduced by A. Murphy) part 3, Chapter 5.

[43] Galiani (n 7) 69.

[44] J Steuart, *An Inquiry into the Principles of Political Economy*, originally published in 1767, now in *The Works of Sir James Steuart* (T. Cadell and W. Davis 1805) vol 2, 270.

[45] Hawtrey (n 17) Chapter 1.

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by stating that 'Money of account, namely that in which debts and prices and general purchasing power are expressed, is the primary concept of a theory of money.'[46]

It is notable that those leading British economists seemed unaware of Galiani and, even more remarkably, of Steuart. They appeared to be far more influenced by Knapp's 'chartalist' theory of money.[47] But if one sets aside the array of neologisms introduced by Knapp, it is hard to find any originality in that work, including in its fundamental premise that money is a unit of account established by law and used as a means of payment. Nonetheless, the influence of Knapp has reached well into our times, especially on the current of Modern Monetary Theory (generally known by the acronym MMT).

Marx's contribution to monetary theory in this respect is twofold. First, in his approach, the unit of account is set by an extra-economic authority that conventionally divides the physical units of a commodity that already acts as measure of value in practice. The accounting units are certainly abstract, but they are not ideal, for there are metallic coins that correspond to the accounting units. Money is not an ideal unit invented to make qualitatively disparate things commensurate with each other. Nor is it an ideal unit devised to record complex credit relations of debit and credit, a common assumption that merely projects into the distant past transactions pertaining to advanced capitalism.

The point is important because in recent decades it has become commonplace to argue that money emerged in the mists of historical time as an ideal unit of account. These 'Babylonian' stories – after Keynes's term –[48] are particularly influential among theorists who associate the emergence of money with an extra-economic authority, for instance, in Ingham's analysis of money as transferable debt.[49]

It is beyond my competence to judge the status of units of account in the lists and transactions of the cuneiform records of the ancient Middle East. But it takes an enormous analytical leap to conclude that these units were money that emerged as the cerebral offspring of some priestly authority. When commodity exchange is a generalised social practice, it is certainly possible to ascertain that things have value and are thus somehow commensurate with each other. This was, after all, one of the greatest contributions to human thought by classical political economy. To assume, on the other hand, that the commensuration of a vast array of qualitatively disparate things could take place independently of commodity exchange and occur by simply inventing an ideal unit of account is to project onto the past the perceptions of the present. Performing such a titanic mental feat is not in the gift of humanity, not even of the priests of Babylon.

Second, and directly relevant to our purposes, Marx's approach implies that monetary politics is likely to be a bounded, conflictual, and hazardous process. The unit of account defined by the state renders into prices commodity values that are measured by the body of the money commodity. The state can create a nomenclature of prices every time it alters the accounting unit, but it cannot determine the underlying value proportions that are established in practice by countless economic agents. Therein lies the potential for disturbance.

To put it in slightly different terms, value measurement is a real process taking place continually and over time, whereas price standardisation could be changed in an instant. Consequently, state actions could potentially result in prices that directly contradicted the values measured by the physical unit of the money commodity over time. Clashing nomenclatures of prices could emerge purely because of the state's monetary actions, throwing production and circulation in disarray. The integrating presence of money across exchange and production would be disturbed – the 'nervus rerum' disrupting instead of conjoining the whole. Moreover, there

[46] JM Keynes, *A Treatise on Money*, originally published in 1930, now in *The Collected Writings of John Maynard Keynes*, vol V, edited by A Robinson and D Moggridge (Cambridge University Press and the Royal Economic Society 1978) Chapter 1.

[47] G Knapp, *The State Theory of Money* (Macmillan & Co. Ltd. 1905) Chapter 1.

[48] Keynes (n 46) 11.

[49] G Ingham, *The Nature of Money* (Polity 2004) 107–51.

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would inevitably be winners and losers among producers and traders of commodities depending on past transactions.

The politics of money in a capitalist economy is restricted by the potential for monetary disturbance inherent to setting the unit of account. It is incumbent on the bourgeois state to protect the integrating function of the 'social pledge' for production and circulation. This requires a theoretical understanding – implicit or explicit – of the functioning of money on the part of the state. Note, however, that monetary theory could well be fallacious.

For our purposes, it follows immediately – even at this highly abstract level – that the democratisation of money cannot take place by intervening merely in money's functioning as unit of account but must necessarily include intervention in its functioning as measure of value. To achieve the aim of democratisation a social authority – state or other – would have to restrict the role of money as the unconscious integrating element of production and circulation. Managing the accounting units of money democratically, while expecting money to continue functioning as the blind 'nexus rerum' of capitalist economic life, would be to invite economic disruption and turbulence.

Democratisation of money necessarily entails that its functioning as measure of value must be regulated, and this implies direct intervention by social authorities in the production, exchange, and distribution of output. To put it plainly, prices would have to be set administratively across a broad range of sectors and activities, while economic decision-making would be no longer left entirely to the discretion of independent economic agents. Money's functioning as 'nexus rerum' would be severely restricted and money would become primarily an accounting device. Such intervention, however, would no longer be simply a matter of monetary politics but would amount to a challenge to the foundations of the capitalist order drastically reducing the organising role of money in the economy.

One crucial factor in this regard is the form that money itself takes. Commodity money is the original form of money that casts light on the first principles of monetary politics, but it is also elementary. What matters in contemporary capitalism is how value is rendered into price when the money commodity no longer acts as measure of value. What are the limits of monetary politics in these circumstances? This question cannot be answered without tackling credit money, the true money of capitalism, in some detail.

Locke's defence of the inviolability of the old standard was a highly political stance which, despite its theoretical fallacy, clung onto a perception shared by all his contemporaries: the monetary actions of the state were ultimately anchored on the physical body of the money commodity. This was certainly true at the time, but the primitive monetary practices of the late 17th century give barely a hint of the political realm that is opened when the state sets the unit of account for credit money.

Britain witnessed a veritable explosion of credit relations in the 18th century, and by the middle of the 19th, the metallic content of the pound was intricately related to credit money created by banks, which had no intrinsic value determined through production and exchange. This is the deepest well out of which springs the politics of contemporary money, as is shown in the following section.

7 The politics of setting the unit of account for credit money

Credit money is a protean entity which for ease of exposition can be assumed to comprise the banknotes and deposits of private banks. It is essentially a promise to pay issued by a private bank to acquire someone else's promise to pay, ie, a financial liability that backs a financial asset. Credit money completes transactions by transferring a private bank's promise to pay from one recipient to another. Hence it is qualitatively different from commodity money, which is no-one's liability and settles transactions by finally delivering *quid pro quo*.

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The qualitative difference between commodity and credit money is typically disregarded by the 'Babylonian' currents of monetary theory on the grounds that all money relies on trust. This is a misapprehension that also subsists in Eich's book.[50] There is no doubt that commodity money relies on trust since those who accept it must implicitly believe that others will do the same, a belief that is cemented by the state, not least through coining the unit of account out of the monetary metal. But such trust is not credit in the crucial sense of a promise to pay. The similarity is largely semantic.

The difference between the two forms of money has long been known in political economy and was firmly established during the Banking-Currency Controversy in the mid-19th century as the Law of the Reflux,[51] also exerting a heavy influence on Marx. Essentially, a private promise to pay eventually returns to its issuer to be settled, typically as the financial assets against which it was originally issued mature and are repaid. There is no Law of the Reflux for commodity money.

For our purposes, the crucial point is that bank credit money comprises abstract units of account, which might be given a symbolic form as chits of paper but exist largely as entries in ledgers (book or electronic). The abstract nature of the units of bank money was grasped by political economy already in the days of the 'florin banco' of the Bank of Amsterdam in the early 17th century. The question immediately arises: How is it possible for such money to deliver the integrating function of the 'nervus rerum'? What ensures the stability of an abstract unit of account that is essentially a private promise to pay?

The real process, as for commodity money, is again the swapping of the units of bank money for commodities in practice: commodity value is expressed as price in terms of the abstract units created by several private banks. Therefore, it is paramount that the prices accounted in the units of one bank should not contradict those accounted in the units of another and all should be compatible with those accounted in the political unit defined by the state, which remains metallic in the first instance. In sum, the private accounting unit of one bank must be strictly equivalent with those of the others, and all with the public unit created by the state. 'One' must be 'one' across the sphere of capitalist circulation, whether that abstract 'one' is issued by a bank or by the state.

It is apparent that this problem is far knottier than that faced by Locke. Strict equivalence among private and public accounting units could certainly be proclaimed by law but that would mean little in practice. Real equivalence at the rate of one to one is premised on the regular transfer of liabilities among private banks to clear payments made by participants in exchange. It is the outcome of the lending and borrowing activities of banks as they search for profit within the broader context of capitalist accumulation. A bank that, for instance, had problematic assets or insufficient reserves would be unable to guarantee this equivalence, no matter what the law declared.

Two related factors are fundamental to the ability of private credit money to function as unit of account. The first is its convertibility into the political unit of money, which acts as a passive guarantee of equivalence. The second is active intervention by the state in the operations of banks, including by manipulating the key price of finance – the rate of interest. Based on these two factors, the accounting function of money could be potentially homogenised for metallic and credit money across the sphere of circulation, thus allowing an abstract and private 'social pledge' to deliver its integrating role.

The trajectory of the British currency after Locke sheds light on the politics of money under these conditions. Particularly relevant are the great monetary debates of the 19th century, a time when industrial capitalism dictated the pace of the British economy and international trade was no longer the domain of privileged monopolies. The state managed its finances largely along capitalist lines, and the goldsmiths and scriveners were long gone, having made way to commercial banks that provided short-term credit typically through the purchase of inland bills of exchange, which

[50]Eich (n 1) Introduction.

[51]J Fullarton, *On the Regulation of Currencies* (John Murray 1845) Chapter 3.

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they financed by issuing their own banknotes and deposits. Banks systematically transferred surplus funds from agriculture to industry by trading bills in the London money market.

Finance in London was dominated by the Bank of England, which still functioned in part as a private concern with a monopoly of issuing banknotes in London that were the main money of commerce and a common unit of account in practice. Gold circulated widely in the domestic economy, including in the receipt and expenditure of workers' income. Global financial networks relied on international bills of exchange, increasingly drawn on London, though gold and silver still acted as final means of payment internationally.

The political content of 'sound money' in these conditions was broadly revealed on two separate but related occasions. The first was the Bullion Controversy at the time of the Napoleonic Wars, occurring amidst the Restriction of 1797–1821, that is, the lifting of legal convertibility between Bank of England notes and gold. The second was the Banking-Currency Controversy of the 1840s, which led to the famous Act of 1844, the first instance of theory-driven monetary policy. The context of the Act was not war but the regular international economic crises of industrial capitalism.

Monetary phenomena in both controversies had ostensible similarities with the 1690s: the bullion price rose above the mint price, the exchange rate of the pound fell, and gold drained abroad. But the money that commanded the lion's share of attention was the banknote of the Bank of England. 'Sound money' referred primarily to an intrinsically valueless piece of paper issued by a financial institution.

Particularly relevant in this regard is the Currency-Banking Controversy. In the repeated crises of the first half of the 19th century – 1825, 1836, 1844, and so on – the bullion price of gold typically rose. Since the bullion price was also expressed in terms of banknotes, its rise represented a fall in the value of the banknote. Confronted with the turmoil, both sides of the Controversy agreed that it was imperative to ensure the convertibility of banknotes into the metallic money of the realm at the rate of one to one. The question was what monetary policy to adopt to ensure such stability for credit money.

For the Currency School, the problem arose because the Bank of England had issued too many banknotes, hence devaluing the credit-created unit of account relative to gold. The solution was rigidly to control the quantity of banknotes relative to the gold reserves of the Bank.[52] The Act of 1844 split the Bank of England into an Issue Department that would issue banknotes in strict proportion to its gold holdings, and a Banking Department that would do regular banking business. The policy would presumably stabilise the value of banknotes, eliminating sharp fluctuations in the bullion and foreign exchange markets, and preventing the drain of gold. 'Sound money' would be a cure for capitalist crises.

In contrast, the Banking School claimed that if the Currency Principle became law it would lead to the 'absurd' and 'disastrous' situation of one part of the Bank of England being unable to operate due to lack of reserves, while another would be sitting on millions in gold.[53] Quantitative control was no way to ensure the stability of the banknote. The critique was prescient, and the Act was suspended in three successive crises – 1847, 1857, and 1866 – but the trouble was that the Banking School had no persuasive alternative policy to offer. The Law of the Reflux, important as it was, was not enough as a regulating principle. Possessing a large reserve of gold and waiting for crises to blow over was hardly an adequate stance for the leading imperial power of the world.

In the second half of the 19th century, slowly and hesitantly, the British state realised that it had to adopt an active interventionist approach toward the value of credit money. The framework was set by the political unit of money, which was still a quantity of the monetary metal. First and foremost, the banking system kept a metallic reserve against its liabilities, and that impacted

[52] R Torrens, *The Principles and Practical Operation of Sir Robert Peel's Act of 1844* (Longman, Brown, Green, Longmans and Roberts 1857) Chapter II.

[53] T Tooke, *An Inquiry into the Currency Principle* (Longman, Brown, Green and Longmans 1844) 110.

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heavily on the ability of banks to advance credit. Equally important was that metallic money was used regularly in circulation, thus making convertibility with credit money a real process. Since the money commodity was created in production, its own value acted as an external factor in measuring the value of other commodities, and consequently set boundaries to how these values became prices via credit money. One to one equivalence provided an anchor for prices across the sphere of circulation.

The response of the state involved detaching the Bank of England from private profit making and transforming it entirely – in practice if not in law – into a public institution. The Bank systematically manipulated its own rate of interest aiming to regulate the provision of credit by private banks, in conjunction with their metallic reserves. The rate of interest was the true lever of managing the value of credit money, and bank rate policy became the cornerstone of British finance. Since, moreover, the stability of credit money was directly related to the exchange rate of the pound, the policy gradually acquired a dominant international aspect. By the time Hawtrey wrote his book it had reached great theoretical refinement.[54]

The leading capitalist state of the time continued formally to comply with Locke's tradition on metallic money but ensuring the stability of credit money had become a technical and political process. In addition to contested legislation, monetary policy now entailed creating a public institution to manage credit with monopoly powers as well as regularly manipulating the fundamental price of finance. It also entailed calibrating the rate of interest to affect the international flows of capital, which was ultimately an act of empire.

The terrain of monetary politics had widened enormously. Active intervention across the field of credit was required to ensure that the 'nervus rerum' could perform its integrating function. It was unimaginable that the state could limit itself merely to defining and maintaining the metallic content of the money commodity. As the political field broadened, the British state accrued great monetary power. But its power was fraught with severe danger.

Mishandling the homogeneity of the unit of account across metallic and credit money would not merely upset the nomenclature of prices, disturb the balance between past and present obligations, and alter the distribution of income and wealth. Even more critically, it would disrupt the operations of the credit system, thus impacting directly on capitalist accumulation, and ultimately on the ability of Britain to project imperial power. Still, all that was small beer compared to what was to follow as the form of money continued to develop.

8 Expanding domain and forbidding boundaries of monetary politics

The trajectory of monetary politics in the 20th century and beyond has been determined by the freeing of the state from the metallic bind in fixing the unit of account. Keynes was quickly aware of the import of this development and defined the new era as that of 'managed money', extensively discussed by Eich.[55]

In present day capitalism the political unit of money continues to act as a benchmark for the abstract units of account created by private banks. But the nature of the state's 'one' has changed dramatically, with profound implications for the nomenclature of prices, the functioning of the credit system, and the politics of money.

Metal is excluded altogether from an active monetary role and functions, at most, as a hoard of last resort kept largely by the state. The political unit of money is essentially a form of state fiat money, while privately created credit money dominates domestic circulation. The standardisation of prices pivots on the convertibility of private credit money into fiat money at the rate of one to one. These are essentially the conditions that have prevailed since the end of Bretton Woods in 1971–1973. They are reminiscent of the British Restriction of 1797–1821, but the differences

[54] Hawtrey (n 17) Chapters III and IV.
[55] Eich (n 1) Chapter 5.

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between the two periods are qualitative since the money commodity was actively present during the Restriction.

It is instructive in this connection to return to Marx's monetary writings, though to note a weakness. Take, for instance, one of those footnotes in *Capital* that originally triggered Eich's interest. In it, Marx sharply criticised Fullarton for claiming that all domestic functions of metallic money could be performed by 'inconvertible notes, having no value but that factitious and conventional value . . . they derive from the law'.[56] According to Marx, this showed 'how unclear even the best writers on money are about its different functions . . . because the money commodity is capable of being replaced in circulation by mere symbols of value, it is superfluous as a measure of value and a standard of prices!'.

Well, Fullarton was right, as we now know. The money commodity can indeed be made superfluous as both a measure of value and standard of prices in domestic circulation but also in international transactions. This development has opened an expansive new terrain of monetary politics. The remainder of this article briefly sketches its main parameters, still deploying Marxist monetary theory as a guide.

When the money commodity has no active monetary presence, there is no longer a real process through which commodity values are measured in money's metallic body, and the implications are dramatic. Above all, the political unit of account becomes entirely abstract, typically created by the central bank through its banking operations. The Law of the Reflux still holds but no real promise to pay is involved – central bank money is inconvertible into anything other than itself. Privately created credit money, meanwhile, remains the dominant form of money in the economy.

The equivalence of the private units with each other and with the public unit of money is as necessary as ever for the coherence of the nomenclature of prices, but the bedrock of the monetary metal is no longer available. Through regular exchange, commodity values are accounted in the units created by private banks as well as in the unit created by the central bank. The central bank is obliged to ensure the equivalence of these units and relies on the rate of interest for the purpose.

There is, however, no longer a metallic reserve to constrain the provision of credit by private banks: their reserves comprise the fiat money of the central bank into which their own money is convertible. Since the provision of bank credit faces no external – produced – constraint its regulation depends fully on the central bank, whose rate of interest is now entirely a tool of discretionary public policy.

But that is far from all. Given that the money commodity is absent, the produced value of gold can no longer act as benchmark for the values of other commodities. It is certainly necessary to have one-to-one equivalence between the abstract unit of the state and the abstract units of private banks, but that is not simultaneously an external anchor for commodity prices. Thus, it is incumbent upon the central bank actively to manage the price level, at the very least to forestall the possibility of rapid inflation that would severely disrupt the nomenclature of prices.

When the political unit of money is entirely abstract, central banking becomes a labour of Hercules. The central bank is, in effect, the overseer of the spontaneous interaction of commodity producers and traders across the economy. It must act as monetary planner, managing the price level, forecasting fluctuations in interbank transactions, estimating the performance of the several sections of the economy, projecting the movement of profitability and labour productivity, assessing the likely conduct of international commodity transactions and capital flows across borders, estimating the distributional implications of policy, and so on, while always protecting the interests of the financial sector. Class conflicts lurk behind all these tasks.

Even these deeply political actions, however, are not enough to guarantee the homogeneity of the unit of account and the anchoring of prices in contemporary capitalist economies. Private banks are inherently susceptible to failure since they are capitalist enterprises issuing liquid liabilities to acquire (relatively) illiquid assets. The holders of bank liabilities always fear that there

[56] Marx (n 39) 225, n 35.

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could be loss of value. To assuage this fear there must be an external guarantee of the convertibility of private money into central bank units at the rate of one to one. The only reliable source of such a guarantee is the state.

These are, moreover, merely domestic considerations. The removal of gold from capitalist circulation has taken away the transnational form of world money, leaving solely national units of account in the world market, which are set abstractly by respective states. These are integral to politics at the international level and comprise elements of national identity. The national unit of the most powerful state, the USA, is the reference point for all others, taking the position of global reserve currency. In the absence of gold there is nothing to anchor the rates of exchange among these monies, and the asymmetries thereby created are without historical precedent.

The accounting of value across the world economy has come to depend on the domestic money of the USA. The fiat dollar is the unit of account in vital global markets, the dominant means of payment, and by far the largest reserve element. States further down the hierarchy are obliged to take the exchange rate of the dollar into consideration as they manage their own domestic units of account to ensure price homogeneity and the anchoring of the price level. The role of the dollar certainly affords enormous power to the USA, but it is premised on other states continuing to hold intrinsically valueless dollar reserves.

There are hardly any areas of domestic and international economic intercourse that are untouched by monetary politics today. Contemporary money has a pronounced political character domestically and internationally, reflecting national asymmetries and a balance of fear across the world market.[57] It is not at all accidental that central banks have become the prime economic institutions of contemporary capitalism, veritable behemoths issuing immense volumes of fiat money, dictating the rate of interest, managing the price level, and holding the credit system together. Their operations are the locus classicus of monetary politics.

At the same time, central banking embodies the deeply contradictory position in which contemporary bourgeois states find themselves regarding money. On the one hand, they possess great power that ultimately derives from setting the abstract unit of account; on the other, they confront gigantic domestic and international pressures to ensure the integrating role of the 'nervus rerum'.

Contemporary capitalist societies are complex, multi-layered, and closely interwoven across the world; they are unthinkable without an abstract unit of account to coordinate economic and social activity. Setting the unit of account is a defining trait of the state and a deeply political act. Yet, those that manage it are compelled to act in congruence with the fundamental parameters dictating capitalist economic life. The task involves conflictual politics and relies absolutely on monetary theory.

It is immediately apparent that democratisation of money in that context is a truly profound task that goes far beyond the exercise of monetary policy, unprecedentedly complex as the latter has become. It certainly entails the democratisation of the central bank as the main economic institution of contemporary capitalism but also requires democratic intervention across the financial system and the rest of the economy. The setting of interest rates, the provision and repayment of credit, the setting of prices and the flows of output among key sectors, including the determination of investment, call for conscious social intervention, if the measurement of value is to be compatible with a democratically managed unit of account.

In effect, the democratisation of money requires that its domestic role as the 'nexus rerum' would be drastically reduced. The social challenge to the capitalist organisation of the economy would be enormous, without even considering the international role of money. For, the full

[57]Elsewhere I have discussed fear and national identity as decisive factors in contemporary monetary politics, especially in the context of the European Monetary Union. See C Lapavitsas, *The Left Case Against the EU* (Polity 2018) and 'Learning from Brexit. A Socialist Stance towards the European Union' 71 (5) (2019) Monthly Review 26.

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democratisation of money would also require global intervention reducing the role of money in relations among states.

Locke's theory offers little purchase on the political forces that shape the abstract unit of account in contemporary capitalism. Eich's critique is well taken, and the reform of money that he seeks is desirable. But Galiani's warning remains as valid as ever: the principles of money's economic conduct are not subject to state whimsy. Monetary reform that draws its rationale from the conventional character of money risks being ineffectual and perilous if it ignores the innate role of money in capitalist production and circulation. Without first addressing the underlying capitalist reality, the abstract unit of account could never be set along social and democratic criteria.

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