Part I

1 Money Anchored to the Future

Money is institutionalised social power, the power of people working together, implicitly or explicitly, in a division of labour to produce a collective output. Money is the result of an institutional process which encapsulates the power of productive collective action in a flexible, tradable instrument. Yet it takes an entire system of hierarchically concatenated institutions to transform a collective's powers of production into a highly liquid instrument. This book outlines the nature of that system. It discusses this process in theory (Part I) before moving on to a series of cases to illustrate how variations in the politics of collective action lead to variable monetary quality (Part II).

Why does something so seemingly insubstantial—a promise, a paper note, a digital ledger entry—have real value? This is perhaps the central mystery of money. Anecdotally, we know that many people still think money is backed by gold (or ought to be), something confirmed by emerging scholarship (for example, Kraemer et al., 2020). In order to fully account for money, we cannot dismiss such perceptions as mere error or false consciousness. Social theory has to explain how a credit instrument, a promise, can durably and systematically function like a real commodity. What is it about the money system that enables promises to function like valuable things? Why are some monies better than others? Why are money systems always hierarchical?

We propose a political theory of money as an answer. Social theorists have of course long argued that money is a social relation, but that still begs the question of why some social relations generate better, more widely acceptable money than others. To answer this question, we need a theory of types of social relations that map onto variable monetary robustness. We also need a theory of the social function of money because what counts as a 'better money' itself presupposes a particular historical social formation. The functional requirements of money change with the dominant social formation. As such, the prevailing form of money in any epoch tells us a great deal about how we have chosen to live and work together. The kind of money we have emerges from the kind of society we have.

As money has grown even more abstract, rich nations have become hyper-financialised, and inequality has grown to the point of breaking down the very legitimacy of states. The mystery of money and its value lies at the heart of these controversies, but at the end of the journey the citizen-worker will find that money reflects back her own future social product.

We argue that when promises—credit—are systematically institutionalised in a particular pattern, they can bear real value. As we outline in this chapter, this pattern of institutionalisation is *hierarchical and hybrid*, combining institutions formed of one type of social relation—political relations—at the system's apex with institutions formed of another kind of social relation—economic relations—at the system's capillaries.

Hierarchy emerges because political relations generate institutions of substantial scale and robustness. Politically institutionalised balance sheets generate highly creditworthy promises by being politically anchored across a national economy. Institutions formed through economic relations, by contrast, are easier to crack and moored to a much smaller part of the social product; they therefore produce promises that, while of substantial creditworthiness, are less creditworthy than those made up of political promises in the same jurisdiction. Different types and scales of social relations index differential creditworthiness. More creditworthy institutions set the terms for less creditworthy ones; the more creditworthy instrument is an 'outside' settlement instrument, 'money', for less creditworthy balance sheets—hence the hierarchy.

Yet these different types of credit are layered together in a single money system because only together can they combine the features of stability, flexibility and granularity, all of which are demanded by our dominant social formation of capitalism plus democracy. The dominant social formation therefore demands that money systems be *hybrids* of institutionalised political and economic relations. As we will see subsequently, this is not the same thing as a hybrid of public and private *ownership*.

Because institutionalisation and 'anchoring' vary with local political settlements and the size of economic catchment areas, creditary promises produced by various money systems vary in their money-ness. Some monies are so fragile that they barely function even on home turf, while others are so robust that they are used far beyond their home system as world money.

Politics operates at all levels of the system—both the micropolitics of market structures and regulations to the macropolitics of the society-wide political settlement. In all cases, money is designed and constructed in the teeth of a battle of ideas and interests. Money is Max Weber's 'weapon in the struggle for economic existence' (Ingham, 2004, p. 4), but because modern money is a promise—a credit note—and credit comes in systems, money is also the institutional milieu of such struggles. The

contingent equilibria of such struggles instantiate themselves in a particular money's design, leading each money to have its own character and dynamic. A theory of money has to account for the huge variety of money we see in space and time.

Politics is foundational to money in two senses. At the level of the social contract, political contracts tie the future national product to state finances to 'back' national money. But more generally, all social institutions at all levels are collections of implicit political agreements—points at which we stop fighting to form what John Commons called 'working rules' (Commons, 1931). Political struggles instantiate themselves in the configuration of all institutions; ontologically, institutions *are* 'frozen politics' that can melt under enough political heat only to refreeze when the fighting inevitably stops (Unger, 1987). This politics-as-instantiation operates in all monies—public and private—because it operates in all social institutions.

Different types and scales of social relations lead to institutions of differing creditworthiness. Part of the complexity of modern money is that a well-institutionalised money system will not only combine institutions born of different types of social relations—political and economic—but each money system will do so in a different way depending on its own history and macro or micro politics. The range of combinatorial possibilities for possible money systems is therefore very large; we sample only a small subset of cases in Part II.

The relationship between the nature of a collective's social bonding, its internal political settlement and the dynamics of the resultant money is at the very heart of this theory of money. We establish this connection theoretically in Part I (Chapters 1–7). In Part II (Chapters 8–11), we explore the link empirically: the particular hybridity we see in developed economies (nationalised money plus privatised banking) is an instantiation of a local political settlement whose recent imbalance led to crisis (Chapter 8); a world unstably perched between national polities and global economies results in the absence of world money coupled with the urgent requirement for global governance of the hegemonic national money (Chapter 9); libertarianism and a hostility to credit animate the puritan cultures of cryptocurrencies, creating ingenious but malfunctional monies (Chapter 10); and, finally, the European Union's (EU) novel, non-national political contract results in a elaborately mutualised currency whose scale is global hegemonic even while suffering from fragility in a crisis (Chapter 11). Chapter 12 concludes by reflecting on the democratic possibilities for money.

In the remainder of this chapter, we sketch out the elements of a money or credit system in the abstract and then assemble them to illustrate why an ideal–typical system is both hierarchical and hybrid. In Chapter 2, we unpack some of the ontological properties of this system that enable promises to function as valuable things.

Money as Credit

We begin at the cellular level of a money system—credit. We know that modern money is a form of credit because it says so plainly. Many global monies such as the notes of the Reserve Bank of India (RBI) and the Bank of England (BoE) are literally signed by the central banker promising to pay the bearer the sum on the note. Later, we will return to the question of what the note actually promises to pay. To begin with, let us focus on its nature, or ontology, as a promise per se. Credit is a promise to pay something, a statement of debt to the creditor. Money is a form of credit to the holder and debt to the issuer.

Money promises come in two main forms of course: (*a*) cash, which is a bearer instrument, meaning the bearer is also the creditor of the issuing bank (the central bank), and (*b*) bank accounts, which state that the bank owes the deposit holder a specific sum of central-bank money, a portion of which can be repaid or 'withdrawn' on demand.

We are used to reading our bank statements as accounts of wealth (or, in the case of academics, poverty). They indicate wealth because they are statements of debt, of how much money the bank owes us; the money in question is central-bank money. For example, an account statement in India with, say, HDFC Bank Limited states that the bank owes account holder X a sum of RBI money. Another way of saying this is that HDFC's debt to the account holder is denominated in Indian rupees.

If central-bank money is itself a promise to pay (something), our deposit account is also a statement of promises to pay; only the 'something' is clearly defined: bank accounts are collections of promises to pay central-bank money. As promises that are tradable, bank accounts are themselves money in ledger form.

Thus, we have two forms of money right away: physical central-bank money, which is itself a promise to pay something, and 'bank money', a ledger or account form, which is a bank's promise to pay central-bank money. So bank money is already a derivative, a promise to pay a promise.

A theory of money is meant to denaturalise money systems to show how they work or break down. Seeing something as familiar as a bank statement as evidence of the existence of something called 'bank money' is the first step in this process of denaturalisation, enabling us to get out of our physicalist habits of mind.

Highlighting centrality of credit and promises is not meant to be an argument for the foundational role of trust in an economy, important as that may be. If credit appears too intangible to run an entire economy, it is so because we are used to thinking about the economy itself in physicalist terms; we have already seen that people assume that

money is 'backed' by gold. If, on the other hand, we view the economy in relational and institutional terms, credit does not appear so insubstantial after all.

Credit as a Right to Future Control

The early-twentieth-century economist John Commons attempted to reorient economics by identifying an economy as transacting in commodities only *through rights*:

> [I]ndividual actions are really *trans*-actions instead of either individual behaviour or the 'exchange' of commodities. It is this shift from commodities and individuals to transactions and working rules of collective action that marks the transition from the classical and hedonic schools to the institutional schools of economic thinking … the smallest unit of the institutional economists is a unit of activity—a transaction, with its participants. Transactions … are, not the 'exchange of commodities', but the alienation and acquisition, between individuals, of the *rights* of property and liberty created by society. (Commons, 1931, pp. 651–652, emphasis original)

We do not actually encounter commodities initially. Between us and commodities there is always an irreducible layer of rights derived from society. We lay claim to each other's products by virtue of a system of rights and then swap them through our transactions. This system is not necessarily egalitarian: Commons identifies 'conflict' as well as 'dependence' and 'order' as attributes of all transactions (ibid., p. 656).

Working rules, formal and informal, are our collective hooks on the future-oriented world of the production and distribution of commodities. From the institutionalist point of view, 'legal control is future physical control' (ibid., p. 657). Rules and laws establish sanctions of various kinds (ethical, economic, jurisprudential) that *control* individual actions. This sociopolitical world of rules *is the very medium* of the world of commodities and their value, variably locking the commodity and its value to our transactional activity. Working rules are the connective tissue between production and circulation yesterday, today and tomorrow.

One of the most critical working rules or institutions of the economy is that which connects buyers and sellers. We naturally have to pay for our purchases, but, counterintuitively, most payments in an economy are *not* instantaneous. Most transactions occur in finite time; there is a definite period of time from purchase to final payment for the purchase. Until full payment is complete, *buyers are in debt to sellers*.

Any deferred payment immediately creates an implicit or explicit credit–debt relationship. This can take many forms—from a tab at the local shop to a credit-card bill or a mortgage. Until we pay our taxes, we are in debt to the state. Until we are paid our salary at the end of the month, we are creditors to our employers, advancing them our labour ahead of payment. Credit and debt are simply the obverse of most transactions.

If, following Commons, transactions deal in rights to commodities but also occur in finite time, then credit and debt are equally foundational to an economy. Transactions autochthonously generate credit–debt relations; this is equally true of 'transactions with nature'—that is, production processes given the finite time between input and output. Credit and debt are not epiphenomenal but definitional. 'Money' is the means of *settling* an economy's ongoing debts.

Credit, then, is a *right to future physical control of commodities or value*—a right which has all the force of formal or informal social sanction. Credit is a future-oriented right over valuable things and actions, a promissory relation created by our economic interactions and hardened into an institutional or legal form with the force of a right. This is an ideal type: actual creditary rights will of course vary empirically.

The value of this creditary right emerges from its two (inherently variable) elements: the strength of the claim to value and the value of the good or service claimed. We take up the first element in the next section, where we argue that creditary claims come in two broad types depending on the kind of social relation that institutionalised them.

Types of Mutualisation, Varieties of Money

We broadly classify credit claims into two kinds: (*a*) claims that economic units have against each other and (*b*) claims that the state has on citizens and taxation—namely political claims. Both these claims are of different social strengths in that one carries a lower penalty when violated than the other.

Our inspiration here is Emile Durkheim's distinction between organic and mechanical solidarity. Economic contracts are encoded in the civil law, whereas 'contracts' with the state are encoded in the criminal law. Civil remedies are less severe than criminal ones. For Durkheim, this indicated deeper social priorities that communities bonded around. We deploy the distinction between economic and political contracts as *an index of creditworthiness*, namely the likelihood that a credit claim will be paid.

Credit by definition is two-sided: one unit's credit is simultaneously another's debt; one's asset the other's liability. We use the term 'mutualisation' to describe this deep

interlocking. Mutualisation occurs when one unit's cash commitment or liability is another's source of cash or asset. For example, if a company owes its supplier, this is an asset to the supplier and simultaneously a liability for the company. The balance sheets of the two units are interlocked, representing the two sides of a credit–debt relation. This kind of credit interlocking is both ubiquitous and asynchronous: debts come due at different times and do not always line up with cash inflows.

Mutualisation lies at the heart of the social ontology of any economy. If one unit's asset is literally another's liability, then these units are not merely interdependent but joined at the hip (along some margin). Individual economic units are radically incomplete without the broader division of labour. What appear as individual economic units are actually deeply social. Karl Marx and Durkheim both in their own way urged us to look beyond the fetish of isolated units, sanctified by liberalism and neoclassical economics, to the reality of the sociality of any economy. While this may be a hierarchical sociality, it is nevertheless a different paradigm from mainstream economics and much of economic sociology.

Yet classical social theory underplayed the dimension of time even though Marx's M–C–M′ always occurs in finite time. Since all socio-economic relations are mediated by time, they are all inherently creditary: C–M′ comes at some future date during which a creditary relation is in play. Credit, again, is not epiphenomenal to an economy but foundational, as irreducible as time itself. Following Hyman Minsky, we observe that this temporal dimension makes production like a bond instrument—money now for money later. This is not to flatten the distinction between real and financial operations but to illustrate their shared temporal properties. Mutualisation of balance sheets is one way to capture this level of abstraction, namely the ongoing, time-stamped interlocking of balance sheets in any economy.

Given the many-sided, uneven nature of economy-wide interlocking of balance sheets, coordinating agents are required to map asynchronous credit relations onto some means of paying off the debt—that is, 'money'. These agents are called banks. We will see here that banks always come in systems.

To understand mutualisation, we introduce the simple formalism of balance sheets represented as 'T accounts'. This abstraction is useful because it enables us to see how qualitatively distinct creditary promises can be commensurate by the logic of interlocking cash flows.

All economic and political units—households, firms, states—can be represented by (but not reduced to) two-sided balance sheets with assets and liabilities, sources of money and commitments to pay money. Whatever else these units do, they are imbricated in capitalism's cash nexus. Under capitalism, all units need cash, national money, to live and pay taxes; Minsky called this the 'survival constraint'. Cash

connections are a critical layer of the map of the economy. Ordinary units secure cash by selling something or borrowing, with commerce and finance occupying the same ontological level.

Mutualisation is when one unit's cash commitment is another's source of cash. This interlocking of balance sheets is exemplified by institutions called 'banks', but *we are all banks* to the extent that we have cross-cutting, interlocking claims for cash with each other. A supplier that accepts delayed payment, like a salaried worker waiting for the end of the month, is implicitly a financier.

Banks borrow central-bank money and commit to repay their creditors, 'depositors', on demand. Their commitment is a source of cash for depositors: 'savings' is a physicalist expression making us think that we have placed some valuable *things* in safe keeping rather than engaged in a *promissory* relationship (see Chapter 2). By interlocking in this way, depositors and banks have mutualised their balance sheets to the extent of the deposit. This is economic mutualisation. We can think of the state's tax claims similarly—namely political mutualisation of the balance sheets of individual taxpayers (Figure 1.1).

While the balance sheet mechanics of mutualisation are the same in both cases, the relative strength of the credit claims is qualitatively distinct. An ideal-type state has better credit claims than an ideal-type bank because political claims are more robust than economic claims and operate over a much broader economic catchment area.

Mutualisation creates a 'collective' in the sense of a mutually dependent set of relations. Whereas private banks offer mutualisation on economic or commercial terms (that is, formally voluntaristic) to loan and deposit customers, states politically

Bank		**Depositor**	
Assets *Sources of money*	Liabilities *Commitments to pay*	Assets *Sources of money*	Liabilities *Commitments to pay*
	'Deposit' Loan from customer	'Deposit' Loan to bank	

Taxpayer		**State**	
Assets *Sources of money*	Liabilities *Commitments to pay*	Assets *Sources of money*	Liabilities *Commitments to pay*
	Tax Future payment	Tax Future income	

Figure 1.1 Economic versus political mutualisation

mutualise citizen wealth through taxation and social expenditure. Economic mutualisation is both of a different order and, although highly robust in itself, *less robust* than political mutualisation in that it can be violated at a lower cost.

By collectivising and institutionalising promises to pay, mutualisation allows us to understand why credit claims have real value and why different types of credit claims have different values. Balance sheets comprising economic mutualisation have a different tenor and scale than those made up of political mutualisation. Bank assets are a fraction of the economic projects of their loan customers. But the state represents the mutualisation of all citizens through the tax system: 'The state owns some part of each one of us, but we also own some part of it and, through its intermediation, some part of one another' (Mehrling, 2000a, p. 367).

Since robustness varies even within different types of mutualisation, it is certainly possible to have a particular bank money that is better than a particular national money; this has often occurred in the past or indeed in the present if we compare substantial multinational banks with certain developing states (see Figure 1A.1). But modern states in rich nations have enormously expanded capacities, with their tax revenues taking up over a third of gross domestic product (GDP) on average (Organisation for Economic Cooperation and Development [OECD], 2022). Of the top 100 units in the world by revenue generation, states occupy the top nine positions even in an age of world-spanning corporations which occupy seventy-one of the 100 places (Babic, Fichtner and Heemskerk, 2017). Democratic politics has made modern states economic leviathans; the well-ordered ones have liabilities that operate as money globally.

In the next section, we will combine the idea that credit is a right to future control with the idea that these creditary rights come in different types to answer how central-bank money and bank money are anchored in 'value'.

Banks Are Social Animals

The universe of transactions generates a complex, open-ended web of debtor–creditor relations; there is always someone who owes someone else money in an ongoing fashion. There is therefore a huge job to be done in coordinating and mapping these asynchronous credit relations onto one another and ultimately onto the means of final settlement—money. This mapping occurs from hyper-local to hyper-global levels of the division of labour.

Enter banks, specialist dealers in credits and debits that take on individual units' IOUs (I owe you) and replace their own credit claim for a fee. Our physicalist word for this is 'lending', but it is more accurately 'accepting', as banks accept or take on the liability of their loan customers and replace it with their own. Banks can do this