Abstract

The Currency of Justice:
Money and Political Thought

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This dissertation excavates discussions of currency as a central political institution in the history of political thought and explores its implications for contemporary political theory. By recovering five historical moments of monetary politics I reconstruct the neglected monetary dimension of the political thought of Aristotle, John Locke, Johann Gottlieb Fichte, John Maynard Keynes, and Jürgen Habermas and argue that money is not only an economic tool but also a political institution constitutive of any political community. In each episode, I combine contextualist historical reconstruction with detailed textual analysis and an attention to the diachronic reception of texts. While political thought is replete with suspicions against the abstraction and acquisitiveness of money, I contend that this view, on its own, risks obscuring money's political dimension. My thesis thus challenges political theorists who straightforwardly oppose politics to money. I argue instead that currency is also an essential tool of civic recognition that mirrors the civic uses of speech in fostering trust and acknowledgement, and a political institution of reciprocity whose benefits and burdens require fair sharing. This does not displace worries about commodification but complements them by an account of currency as a malleable political institution.

In arguing for an overcoming of the defensive posture of containing money, I develop three related lines of argument through an engagement with the history of political thought. First, I argue that money is constitutively political because politics is constitutively monetary. Both the abstract civic relation of equality among citizens as well as the ability of political communities to satisfy mutually complementary needs is intimately tied to currency. Secondly, I illustrate that currency is a constitutive institution of any political community because it touches on the very ability of political communities to fairly distribute resources, enact compensations, and impose fines. Thirdly, I emphasize that money is a symbolic institution of the collective imagination that connects the present to the future. Ideas and expectations are thus foundational to the way money works, or fails to work.

If this political side of money has been largely obscured, naturalized, and mystified, I trace one important root of this neglect to John Locke's influential political theory of depoliticized money. Building on this argument, I provide an account of how an awareness of the political dimension of money could be obscured while arguing at the same time that this displacement rests itself on a politics of depoliticization that can never be complete. The politics of money, I contend, is inescapable, even where it expresses itself in the form of an anti-politics. While modern money is a complex tool of economic accumulation, the principles on which a monetary regime rests are inevitably political in nature and responsive to demands for justification. As I explore by tracing analogies between money and speech throughout this dissertation, currency is a constitutional project. Like any legal constitution, a monetary order is a site of distribution and debate. Money may be filthy lucre but it is also the currency of justice.

The Currency of Justice:
Money and Political Thought

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THE CURRENCY OF JUSTICE:
Money and Political Thought

For my parents.

The Currency of Justice: Money and Political Thought

Stefan Eich

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Acknowledgements

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– Introduction –

THE CURRENCY OF JUSTICE
Money and Political Thought

> Money in its significant attributes is, above all, a subtle device for linking the present to the future.
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> —John Maynard Keynes[1]

Over the past thirty years, momentous changes in the politics of money have radically reshaped the societies we live in. These decades, which witnessed the renaissance of normative political theory in the academy, now also stand for the gradual erosion of the welfarist institutions and policies advocated by many of those very theorists. The rise of liberal theories of social justice coincided with neo-liberal practices of financialization, the acceptance of permanent and significant unemployment, and a widening of income disparities within most countries in Europe and North America. The radical reshaping of the monetary order and monetary policy since the 1970s has been crucial to all three dimensions of this silent revolution.[2] Political theorists have since

1 John Maynard Keynes, *The General Theory of Employment, Interest and Money* [1936], The Collected Writings of John Maynard Keynes, Vol. 7 (Cambridge: Cambridge University Press, 2013), 294.

2 Alasdair Roberts, *The Logic of Discipline: Global Capitalism and the Architecture of Government* (Oxford: Oxford University Press, 2010); Greta Krippner, *Capitalizing on Crisis. The Political Origins of the Rise of Finance* (Cambridge MA: Harvard University Press, 2011).

become vocal critics of the ways in which money's corrosive effect can corrupt civic norms and political institutions. Confronted with the economic developments of the past decades, they developed powerful arguments against commodification and the "colonization of the lifeworld." In the hope of keeping money in its place political theorists repeatedly drew lines in the sand, each soon to be erased by the next wave reaching the shore.

The implicit flipside of this defensive posture is rarely considered. In attempting to contain the political reach of money, political theorists often unwittingly accepted the premise that money was merely economic in the first place by equating it with markets and commodification. Once reduced to a means of economic exchange, money passes effortlessly as immune to normative analysis and irresponsive to questions of justice and justification. The possibility that currency could also have an important political dimension is alien to this line of thought. With money reduced to nothing but an economic institution, political questions of money became unintelligible, salient distributive implications of monetary policy invisible, and the political nature of international monetary regimes muddled.

Today, having witnessed the global financial system on the brink of implosion, after almost a decade of austerity, the income gap widening ever further, and the political project of Europe torn up by the divisive monetary fault lines of the Eurocrisis, it is once more possible to appreciate the neglected political face of money. During times of tranquility it can be hard to perceive what we have come to take for granted. The usual easily appears invisible. "Sometimes what is most familiar," Hanna Pitkin reminds us in a different context, "can be as difficult to perceive accurately as what is wholly missing from our experience."[3] There are few things in our lives to which this applies more than money. In calm times it is easy to reduce money to a neutral means of economic exchange. In periods of crisis, by contrast, the veil is pulled from our eyes and money emerges once more as a construct of our collective imagination, not entirely immune to questions of justice and justification.

This dissertation thus takes a contrarian stance to the recent neglect of money in political thought by excavating a series of debates about money as a political institution. By reconstructing five historical episodes of monetary politics I highlight the neglected politics of money in the thought Aristotle, John Locke, Johann Gottlieb Fichte, John Maynard Keynes, and Jürgen Habermas. In arguing for an overcoming of the defensive posture of containing money, I develop three related lines of argument through an engagement with the history of political thought. First, and most fundamentally, I show that currencies are not merely economic tools but also political institutions constitutive of any political community. Secondly, building on this claim, I argue that money is constitutively political by stressing the ways in which currency creates ties of political reciprocity and functions as central tool of political justice. Thirdly, I provide an account of how awareness of this political dimension of money could be obscured while arguing at the same time that this displacement depends itself upon a politics of depoliticization that can never be complete.

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[3] Hanna Fenichel Pitkin, *The Attack of the Blob. Hannah Arendt's Concept of the Social* (Chicago and London: The University of Chicago Press, 1998), 3.

The Politics of Money

To begin to appreciate the foundational political significance of currency it is necessary to consider the problem of commensurability. Grasping the foundational nature of the problem, Karl Marx confronted it head on in the opening chapter of *Capital* (1867). What makes exchange possible, Marx asked? "What is identical [*das Gleiche*], that is to say the common substance [*die gemeinschaftliche Substanz*], that represents the house for the bed in the expression of the value of the bed?"[4] Marx's example of houses and beds was not an arbitrary one. It was the example Aristotle had chosen for his discussion of commensurability in the *Nicomachean Ethics* (NE 1133b23-26). Behind the shared example a subtle dialogue emerges.[5] Aristotle, Marx explained, may have been "the greatest thinker of antiquity" but he fully knew his analysis of exchange and commensurability had "faltered [*scheitert*]."[6] Antiquity's founding on slave labor had concealed from Aristotle the equal basis of men's labor powers. As a result, he had been unable to discover a universal concept of value. For according to Marx, the hidden equivalence of abstract human labor formed the true currency of exchange.[7] Aristotle had

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4 Karl Marx, *Capital. Volume One* [1867], trans. Ben Fowkes (London: Penguin, 1976), 150; Karl Marx, *Das Kapital*, Marx Engels Gesamtausgabe (MEGA), Zweite Abteilung, Band 6 (Berlin: Dietz Verlag, 1987), 91.

5 As Cornelius Castoriadis has pointed out in a classic essay, the opening chapters of Marx's *Capital* must be read as a conversation with Aristotle, ultimately culminating in disagreement. Cornelius Castoriadis, "Value, Equality, Justice, and Politics: From Marx to Aristotle and from Aristotle to Ourselves," in *Crossroads in the Labyrinth* (Cambridge MA: MIT Press, 1984), 260-339. My starting point for the first chapter, and indeed the overall project, is significantly indebted to Castoriadis's essay. I am no less indebted to Seyla Benhabib who originally pointed me in this direction.

6 Marx, *Capital*, 151; Marx, *Das Kapital (MEGA 2:6)*, 91.

7 On this, and for a forceful response to Castoriadis, see Moishe Postone, *Time, Labor, and Social Domination. A Reinterpretation of Marx's Critical Theory* (Cambridge: Cambridge University Press, 1993), 144-146, 168-171, and 264-266.

failed because he had to fail. The secret of universal value "could not be deciphered until the concept of human equality had already acquired the permanence of a fixed popular opinion." Despite Aristotle's genius, "the historical limitation inherent in the society in which he lived prevented him from finding out what 'in reality' [*in Wahrheit*] this relation of equality consisted of."[8]

What had been Aristotle's answer to the problem of commensurability that Marx found lacking? As I argue in Chapter 1, for Aristotle it was not the natural equivalence of human labor but the conventionality of currency (*nomisma*) that rendered both things and relations commensurable and allowed for exchange. Things and people were by nature unequal and incommensurable, so for exchange to occur and for strangers to become equal citizens of a political community they first had to be rendered commensurable. Need was the true natural medium of commensurability. But for commensurability to exist beyond the exceedingly narrow realm of matching needs, the artificial conventionality of *nomisma* was required as a stand-in. "Currency (*nomisma*) makes things commensurate as a measure does and equates them," he explained. "There would be no association without exchange, no exchange without equality, no equality without commensuration" (NE 1133b16-19). If the polis owed its existence and sustenance to civic commensurability and reciprocity, this was in part made possible by currency. Commensurability was thus not natural but instituted by society. Instead of reducing commensurability to the equivalence of abstract human labor, Aristotle points us to another, altogether more political line of thought that hinges on the conventionalist

8 Marx, *Capital*, 152; Marx, *Das Kapital (MEGA 2:6)*, 92.

institution of currency.[9] Once we appreciate Aristotle's insistence on the origin of politics in such open-ended nominalism, currency emerges as embodying a foundational question about the very possibility of politics and the polis.

The starting point for the argument developed in this dissertation is thus the observation that the emergence of the Greek polis (and philosophy) coincided with the invention of coinage.[10] For Aristotle, as for the Athenians in particular, currency was not only a means of commercial exchange but also a constitutive pillar of the specifically political community. This was the case in at least two ways. First, currency introduced a notion of commensurability that allowed for new habitual bonds of reciprocity among citizens who had left behind the close-knit familial communities of the archaic world and now encountered each other as strangers in the polis. Conducting commercial exchanges in the agora in the conventional token of the political community constituted an attempt to politicize commercial life and remind the parties of exchange of their civic ties and the mediating function of city. Secondly, money coined by the polis asserted the authority of the community over questions of value and justice. By denoting legal fines in the city's currency, paying a monetary compensation to those attending the law courts and parliament, and awarding coins to celebrated poets and athletes, currency served as a constitutive medium of the Athenian polis through which a civic bond was sustained, injustice assessed, and equity dispensed.

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9 Dipesh Chakrabarty has noted one possibility for bridging the difference between Aristotle and Marx (and thereby between Castoriadis and Moishe Postone) by suggesting that "abstract labor, one could indeed say, was a capitalist convention." Dipesh Chakrabarty, *Provincializing Europe. Postcolonial Thought and Historical Difference* (Princeton: Princeton University Press, 2000), 51-55.

10 For the broader philosophical significance of coinage, see Richard Seaford, *Money and the Early Greek Mind: Homer, Philosophy, Tragedy* (Cambridge: Cambridge University Press, 2004).

The implications of this re-framing far transcend interpretations of Aristotle. For it places currency at the heart of foundational questions of what characterizes a political community, what allows citizens to relate to one another as citizens, and what enables the community to make collective decisions of value and justice. It reminds us furthermore that for much of history since, political communities not only claimed a monopoly on the legitimate use of violence but also the legitimate issue of currency. More specifically, the Aristotelian monetary nominalism of the *Ethics* profoundly shaped Roman law, scholastic thought, and early-modern practice.[11] Throughout ancient, medieval, and early-modern Western political thought, currency was consequently considered a constitutive political institution – "of the same nature as law," as Jean Bodin put it in his *Six Books of the Commonwealth* (1576).[12] Bodin explained,

> As for the right of coining money [*droit de moneage*], … only he who has the power to make law can regulate the coinage [*monnoyes*]. … Indeed, after law itself, there is nothing of greater consequence than the title, value, and measure of coins [*monnoyes*], … and in every well-ordered state, it is the sovereign prince alone who has this power.[13]

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11 The Aristotelian account of *nomisma* from the *Nicomachean Ethics* lived on and was revived in the course of the thirteenth century as Latin translations and commentaries on Aristotle's *Ethics* proliferated across Europe. See Odd Inge Langholm, *Wealth and Money in the Aristotelian Tradition. A Study in Scholastic Economic Sources* (Bergen: Universitetsforlaget, 1983) and Joel Kaye, *Economy and Nature in the Fourteenth Century. Money, Market Exchange, and the Emergence of Scientific Thought* (Cambridge: Cambridge University Press, 1998). Aristotelian monetary nominalism also left a strong imprint in Islamic political thought, as, for example, in Nasir al-Din Tusi, *The Nasirean Ethics*, trans. G. M. Wickens (London: George Allen and Unwin, 1964), 97-98, 157, 191.

12 Jean Bodin, *Les six livres de la Republique* (Paris: Iacques du Puys, 1577), bk. 1, ch. 10, 177; Jean Bodin, *On Sovereignty* [1576] (Cambridge: Cambridge University Press, 1992), 78.

13 Bodin, *Les six livres de la Republique*, 177; Bodin, *On Sovereignty*, 78. See also his *Réponse au paradoxe de M. de Malestroict touchant l'enchérissement de toutes choses, et le moyen d'y remédier* (Paris, 1568)

The right to coin money (*nummus*), Bodin explained in highlighting the common Greek root of *nomos* and *nomisma*, was as much a mark of sovereignty as the right to give law (*nomos*).

When England's judicial authorities were asked in 1605 to settle a monetary dispute in a decision that has since become seminally known as *The Case of Mixed Money*, these were the intellectual resources they drew on. Citing Aristotle and Bodin (as well as Budelius's *De Moneta*), the decision gave theoretical coherence to long-standing nominalist practice.[14] The question of coinage, the Privy Council affirmed, was not only of "great importance in consideration and reason of state" but it was the king's prerogative to "make money of what matter and form he pleaseth."[15] The sovereign rendered money current by proclamation. "Money's form and substance," the Privy Council paraphrased Aristotle, "derives not from the natural material of the body of money but from its imposed value. Money is not a physical body but an artificial one."[16] As such, the nature of money was malleable and its purpose public. Money was, as Bodin had put it, "a public measure [*mensura publica*]."[17] Following this nominalist tradition and employing it in the service of his own argument, Thomas Hobbes similarly recognized coinage in this sense both as a sovereign prerogative as well as an example of

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14 Gilbert v. Brett ("The Case of Mixt Monies"), *Cobbett's Complete Collection of State Trials*, volume 2, 1603-1627 (London: Hansard, 1809), 113-130. Desan describes *The Case of Mixed Money* as "the landmark statement of English nominalism … and an emphatic assertion of the monetary canon." Christine Desan, *Making Money: Coin, Currency, and the Coming of Capitalism* (Oxford: Oxford University Press, 2015), 266-274.

15 "The Case of Mixed Money," 115, 118.

16 "Non materia naturalis corporis monetae, sed valor impositiitius est forma et substantiae monetae, quae non est corpus physicum sed artificiale." "The Case of Mixed Money," 125. This was Molinaeus's (1568-1658) rendering of Aristotle.

17 "The Case of Mixed Money," 116.

collective fiat.[18] As he explained in *The Elements of Law*, currencies (as well as weights and measures) were prime illustrations for the kind of collective acknowledgement grounding the political commonwealth.[19]

As we will shortly see, by the end of the seventeenth century political practice had begun to alter this nominalist consensus. But its core attributes nonetheless continued to be part of English common law until well into the eighteenth century and indeed beyond.[20] In his legal commentary, for example, William Blackstone captured the sovereign's right of coinage (*ius cudendae monetae*) in characteristically evocative language: "The denomination, or the value for which the coin is to pass current, is likewise in the breast of the king"[21] In all states, coinage was an act of sovereign power

[18] Thomas Hobbes, *Leviathan* [1651] (Cambridge: Cambridge University Press, 1991), Chapter 18, Section 16, 127. Hobbes adopted, however, the standard scholastic position that the prerogative could be delegated or transferred. See Jean Barbeyrac's note in his translation of Hugo Grotius's *De Iure Belli ac Pacis* (1625): "The Author here employs the Distinction made by the scholastick Lawyers, who call the Rights here specified, *Regalia minora*, in Opposition to the *Regalia majora*, or essential Parts of the Sovereignty. Among the *Regalia minora* [is] … the Right of coining Money." Hugo Grotius, *The Rights of War and Peace [1625], books 1-3*, ed. Richard Tuck (Indianapolis: Liberty Fund, 2005), Book II, Chapter IV, Section XIII, 502n1.

[19] Thomas Hobbes, *The Elements of Law, Natural and Politic: Human Nature and De Corpore Politico*, ed. J. C. A. Gaskin (Oxford: Oxford University Press, 2008), Chapter 29, par. 8, 180-181. As David Runciman has pointed out, for Hobbes both the state and money have a fictional character based on a form of collective acknowledgment that exceeds individual acts of recognition. See David Runciman, "The concept of the state: the sovereignty of a fiction," in *States and Citizens: History, Theory, Prospects*, ed. Quentin Skinner and Bo Stråth (Cambridge: Cambridge University Press, 2003).

[20] According to Christine Desan, they are still perfectly good law today. Desan, *Making Money*, 13.

[21] William Blackstone, *Commentaries on the Laws of England: A Facsimile of the First Edition of 1765-1769* (Chicago: University of Chicago Press, 1979), Book 1, Chapter 7: Of the King's Prerogative, 268.

and "the unquestionable prerogative of the crown."[22] As a public measure and the medium of commerce, coinage fell under the king's prerogative "to give it authority or make it current."[23]

As I argue in this dissertation, this political side of money has been largely obscured, naturalized, and mystified. That money has political dimensions is, of course, rarely denied outright. After all, many states continue to issue their own currency and exercise control over monetary policy. As political scientists and political economists acknowledge, monetary policy and a country's choice of currency have vast political consequences and are themselves subject to political contestation.[24] But more often than not, to designate monetary policy in this sense as "political" means little more than to attest to its contested nature with competing factions struggling over distributive outcomes. This is, of course, a crucial aspect of the politics of money and one that remains understudied in political theory.[25] But it falls short of what I mean by the politics of money in this dissertation.

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22 Blackstone, *Commentaries on the Laws of England*, Book 1, Chapter 7: Of the King's Prerogative, 267-268. Blackstone acknowledged widespread practices of delegation but insisted that these did not diminish the nature of the prerogative.

23 Blackstone, *Commentaries on the Laws of England*, 266.

24 For an elegant overview of the recent political economy literature studying the politics of money, see Jonathan Kirshner, "The Inescapable Politics of Money," in *Monetary Orders: Ambiguous Economics, Ubiquitous Politics* (Ithaca NY: Cornell University Press, 2003).

25 There is now an emerging literature concerning the normative, and in particular redistributive, questions surrounding monetary policy. See, for example, Martin O'Neill, "Justice, Justification and Quantitative Easing," as presented at University of Montreal (December 2015); Peter Dietsch, "Monetary Policy and Conflicting Social Objectives," presentation, CEP Conference, Montreal (June 2014); Aaron James, "International Crisis Insurance: the Fairness Argument for a Monetary Co-op," unpublished working paper, presented at the Yale Global Justice workshop (November 17, 2015);

When I speak of the politics of money I have a more fundamental sense of politics in mind. Money is not just political because monetary policy is contested or has distributive consequences. Instead, I want to raise an awareness of money as historically and socially constructed through collective actions and decisions. In particular, I will argue that currency is constitutively political in three senses. First, money is constitutively political because politics is constitutively monetary. Both the abstract civic relation of equality among citizens as well as the ability of political communities to satisfy mutually complementary needs is intimately tied to currency. Turning people who are unequal and strangers to each other into fellow citizens requires tools of commensurability and reciprocity. Currency is one such tool alongside laws and speech. Secondly, besides the work of commensuration and recognition, currency is a necessary tool for the exercise of distributive and corrective justice in complex societies. Control over the monetary standard goes beyond questions of monetary stability and touches on the very ability of political communities to fairly distribute resources and enact compensations and fines. Thirdly, as I will stress throughout this dissertation, money is an institution based on collective imagination that connects the present to the future. More than in any other area of politics or economics, ideas and expectations are foundational to the way money works or fails to work.[26]

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[26] As Kirshner puts it, "Even if all the passengers on an otherwise sound plane don't think it will take off, it will. But if just enough of the holders of a given currency don't think an otherwise sound monetary reform makes sense, it won't fly. Ideas about money management, then, have a distinct and profound influence in the world of money, regardless of whether or not those ideas are right or wrong." Jonathan Kirshner, "Money is politics," *Review of International Political Economy* 10, no. 4 (2003), 645-60 645. See also Kathleen R. McNamara, *The Currency of Ideas: Monetary Politics in the European Union* (Ithaca NY: Cornell University Press, 1998). Mark Blyth, *Great Transformations.*

Let me sharpen this intervention by way of a conceptual clarification: While I will often speak of money in the following chapters, currency captures in many ways more accurately the positive political-institutional quality I have in mind. I will thus frequently use money as the broader umbrella term, while reserving currency for the more specific sense of money as a political institution. In order to retain the ease of common language I will speak of money when making a general point, but speak of currency in its more specific sense whenever the distinction between money and currency matters. While currency is thus money, not all monies qualify as currencies. This is the case conceptually as well as historically. Money predates currency. In its broader sense as a unit of account, money has existed in a number of different forms at least since the middle of the Third Millennium BCE. By the time of the Lydian invention of coinage (a form of currency, I will argue) in the seventh century BCE, money had been in use for almost two millennia. Almost as many centuries separate us thus from the Lydian invention of currency as separated it from the Babylonian invention of money. The invention of coinage gave money a political dimension.

Currency, in this sense, is a constitutional project. We commonly speak of a "monetary order" but only rarely do we interrogate monetary systems with the same political rigor and normative demands we expect from constitutional legal orders. While the law is seen as a vehicle of normative demands, money somehow appears beyond them. In this dissertation I want to suggest that this distinction is mistaken. If currency is also a political institution, the question of how we want to shape and use it cannot be simply dismissed. Like a legal constitution, a monetary system is a site of distribution and

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Economic Ideas and Institutional Change in the Twentieth Century (Cambridge: Cambridge University Press, 2002).

debate.[27] Borrowed from G.A. Cohen's classic essay, I thus speak of the "currency of justice" to capture the central claim of this dissertation that currency is a political institution constitutive of any political community and necessary for the realization of political justice.[28] However, where Cohen referred to the currency of egalitarian justice in a metaphorical sense to explore what kinds of goods are relevant for justice, I have a more literal reading in mind. The politics of money is not constrained to the distributive outcomes of inflation or deflation but reminds us of currency's original purpose as a collective institution of societal value and a tool of political justice. Monetary politics in this sense is inescapable, even where it expresses itself in the form of an anti-politics.[29] By highlighting the way in which money is collectively constructed, my arguments thus seeks to de-mystify and de-naturalize money's workings and possibilities. To become aware of money as collectively constructed not only alters our understanding of money but, given its self-reflexive nature, has the power to change money itself.

The Bond of Society

To point to the ways in which currency formed in the Aristotelian nominalist tradition an illustration of the reciprocal bonds that tie a political community together

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27 Interestingly, it has been lawyers who have recently made this point most forcefully. See in particular Christine Desan's elegant and persuasive account of money as a constitutional project in Desan, *Making Money*, 37-69.

28 G. A. Cohen, "On the Currency of Egalitarian Justice," *Ethics* 99, no. 4 (July 1989), 906-44. Reprinted in G. A. Cohen, *On the Currency of Egalitarian Justice, and Other Essays in Political Philosophy*, ed. Micheal Otsuka (Princeton and Oxford: Princeton University Press, 2011), 3-43.

29 As Jonathan Kirshner has observed, "contrary to efforts aimed at 'de-politicizing' the management of money, monetary phenomena are always and everywhere political." Kirshner, "Money is politics," 645.

suggests a fruitful analogy with what has come to be known as the social contract tradition. Like a social contract, the collective fiat of currencies rests on an exchange of mutual promises that extend into the future and are mediated by the political community. In this dissertation, I trace two radically different interpretations of this premise and the divergent conceptions of monetary justice that have been derived from it.

As I argue in Chapter 2, in the monetary turmoil of the late seventeenth century, John Locke described the monetary contract as a tacit, pre-political agreement of all mankind, thereby placing money outside of political control. Analogies between money and a collective contract did not serve to stress the political bond of currency, on this account, but instead presented the monetary contract as a tacit pre-political bond between all humans who were thereby thought to have agreed to material inequalities. Monetary justice meant for Locke consequently first and foremost a duty to guard the inviolability of metal money as a covenant of trust between the sovereign and her subjects. If the widespread clipping and broadening of coins was fraudulent in the individual case, a government devaluing the currency amounted to fraud on a large scale. The cosmopolitan nature of the tacit compact of metal money provided on this view not just an argument for the duty to maintain monetary stability but also supported the expansion of overseas trade as well as colonial settlement.

By the end of the eighteenth century and with the emergence of paper money, Johann Gottlieb Fichte, to whom I will turn in Chapter 3, distanced himself from these accounts of a tacit cosmopolitan assent to metal money. In their place, Fichte instead drew a closer analogy between fiat currency and the political social contract. Where Locke had sought to place money outside of the direct political control of the commonwealth, Fichte argued that currency had to facilitate the same demands of rationality and coordinated autonomy that underpinned the social contract. For Fichte, monetary justice implied not only the enforcement of private contracts but also the realization of a more fundamental social contract that replaced both legal and economic anarchy with a rational system based on civic equality and the right to work. Internationally, this required and made possible strict limits on the extent of foreign trade. In order to escape economic anarchy domestically, the commercial state had to be closed externally. This was on Fichte's telling not a sad necessity, but rather the triumphant extension of the social contract into economic life and the creation of an external guarantor of international peace that would finally put an end to colonial exploitation.

If the following study draws on the social contract tradition in order to frame political discussions of currency, my discussion of currency in turn challenges conventional understandings of the social contract. Social contracts are usually conceived legalistically in terms of a single hypothetical founding moment. In her work on race and citizenship, Danielle Allen has proposed an important reframing of this conception from within the social contract tradition by arguing for a renewed appreciation of ongoing relationships of reciprocity and trust.[30] After all, the social contract is, in Hobbes's language, strictly speaking not a contract but a covenant. It is not a one-off exchange but a set of pledges that extends into the future and has to be continuously realized. As Allen points out, this means that questions of reciprocity, trust, and the fair sharing of sacrifices form the backbone to any covenant that binds a political community together. Currency is just such a social covenant of reciprocity and trust.

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30 Danielle Allen, *Talking to Strangers. Anxieties of Citizenship Since Brown v. Board of Education* (Chicago: University of Chicago Press, 2004).

Currency can only mediate and build habits of reciprocity if it is trusted.[31] As Locke argued, the continuing trust money presupposes and affirms is the bond that keeps society together. Drawing on Locke's hugely influential monetary writings and placing them into the political history of money, I complicate existing accounts of his political thought by emphasizing the importance of worries about societal trust. For Locke, currencies and societies are both based on the trust that promises will be kept. Locke derived from this emphasis on trust an uncompromising need to secure the inviolability of property and the unalterability of coin's metal value. But there is another crucial dimension to trust that complicates Locke's account. Central to the trust that undergirds currency is a fragile web of beliefs that promises will be honored without imposing an unfair burden. For money to be trusted it needs to be not only stable but also based on basic notions of reciprocal justice.

In her account of trust, Allen develops an elegant argument based on the notion of reciprocal sacrifice and the fair sharing of burdens in democratic societies. Sacrifice, Allen reminds us, is an ineliminable aspect of democratic politics. Despite striving to realize the good of all citizens, democracy inevitably involves choices and tradeoffs that leave some worse, others better off. "No democratic citizen, adult or child," she explains, "escapes the necessity of losing out at some point in a public decision. ... Their sacrifice makes collective democratic action possible."[32] The challenge is to fairly distribute the burden of sacrifices across society: to appreciate that someone's benefit often depends on

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31 This itself includes an element of time and habit. Monetary trust, Rebecca Spang summarizes, "is habit congealed through repetition into faith." Rebecca L. Spang, *Stuff and Money in the Time of the French Revolution* (Cambridge MA: Harvard University Press, 2015), 272.

32 Allen, *Talking to Strangers*, 28-29.

another's loss, to compensate appropriately those who lose out, and perhaps most importantly to ensure that the burden does not consistently fall onto an already disadvantaged group.

These concerns are highly pertinent to discussions of currency. Responding to those who insisted on the sacredness of the gold standard during the interwar years, John Maynard Keynes argued that there existed sacrifices so unbalanced and intolerable that it was the state's duty to ensure a more just distribution of burdens by repudiating monetary contracts that had grown too odious.[33] Those who refused to agree to an equal sharing of burdens across society made impossible the continuance of society. They were "the real parents of Revolution."[34] Monetary justice does not simply imply the enforcement of existing contracts but the realization of a more fundamental social contract. A democratic society demands, in Allen's terms, that the loser can trust that her loss is transient and not a persistent feature of society.

The recovery of currency as a central political institution thus underscores the significance of reciprocity for the pursuit of political justice and highlights a neglected monetary dimension of civic reciprocity that captures the way in which civic interactions are mediated by the currency of the political community. Currencies are never mere economic tools but are always also institutions of civic reciprocity and commensurability. Not just the exchange of words but also the circulation of currency is an essential tool of political reciprocity and justice. Aristotle's pointer that "a polis is maintained by doing things in return according to proportion" (NE 1132b33-1133a3) has only recently started

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33 John Maynard Keynes, *A Tract on Monetary Reform* (London: Macmillan, 1923).

34 Keynes, *A Tract on Monetary Reform*, 67-68.

to receive the attention it deserves.[35] Where it has, however, this attention has tended to focus on speech and rhetoric. My argument extends this point to currency. Behind this extension stands a larger interpretative point. Studies in political theory and the history of political thought often contrast the political world of speech and rhetoric with the economic realm of exchange. After all, as Aristotle explained in his opening move of the *Politics*, the polity is a community of difference in which citizens strive for justice by means of speech (Pol. 1253a1-18). Speech has consequently been framed, rightly, as a constitutive political tool for turning strangers into citizens and fostering civic life among citizens. Rhetoric is the currency of the democratic realm.[36] Exchange and money, by contrast, are usually relegated to an economic realm. In Washington D.C. money may talk but this is rarely seen as anything but confirmation of its constitutive lack of a communicative dimension. If my suggestion is correct, this way of framing misses a crucial aspect of political life and thought. In the form of currency, I argue, money has political, normative, and even communicative aspects.

The Politics of Depoliticization

If these arguments about currency as a central political institution appear unfamiliar, it is because contemporary political theorists and historians of political thought have, for the most part, neglected them. Losing sight of the constitutively political dimension of money implies losing track of the ability to see currency as a

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35 The point is reiterated in the *Politics* when Aristotle writes that "reciprocal equity preserves city-states, as we said earlier in the Ethics." (Pol. 1261a30-32)

36 Bryan Garsten, *Saving Persuasion* (Cambridge MA: Harvard University Press, 2003), 2.

malleable political institution. This fog of depoliticization frequently clouds our view. While it is not unique to money, in this dissertation I argue that money constitutes a privileged case study for the broader depoliticization of the economy.[37] There are few economic institutions that experience a depoliticization, mystification, and naturalization as complete as money. And yet at the same time, few economic institutions have a political dimension that is as undeniably part of the modern economy and that frequently re-asserts itself in palpable ways in moments of crisis. A large part of this simultaneous centrality and invisibility of the politics of money derives – sometimes consciously, at other times unwittingly – from the modern distinction between politics and economics. In liberal modernity, the ancient ambivalence about money as both a public measure of value as well as a tool of acquisitiveness has come to be severed and obscured by a division of labor that considers certain institutions primarily economic in nature while designating others as political.[38] More often than not this has meant that money was primarily framed as an economic institution, eclipsing the political potential of currency and reducing money instead to a mere tool of commerce.

By reconstructing a set of debates about the politics of currency, I hope not only to recover a neglected strand of political thought about money but also to offer an

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37 Two texts that have helped me in their own ways to think through the meaning of "depoliticization," have been James Ferguson, *The Anti-Politics Machine: "Development," Depoliticization, and Bureaucratic Power in Lesotho* (Minneapolis and London: University of Minnesota Press, 1994) and Martti Koskenniemi, *From Apology to Utopia. The Structure of International Legal Argument*, Reissue with a new Epilogue (Cambridge: Cambridge University Press, 2006).

38 This development could relatedly be narrated as the gradual refashioning of the money motive from a suspicious corrupter of virtues to the unintentionally beneficial engine of modern commercial life. Albert O. Hirschman, *The Passions and the Interests. Political Arguments for Capitalism before its Triumph* (Princeton: Princeton University Press, 1977).

account of how it came to be eclipsed in the first place. In this sense, this dissertation traces two parallel movements: first, the periodical re-assertion of a political awareness of money in periods of crisis and, secondly, a historical reconstruction of the events and debates that contributed to the eclipse of the politics of money. As a study of how things become invisible, this dissertation thus also constitutes a genealogical attempt to understand how and why the political dimension of money could become obscured.

In Chapter 2, I trace the roots of this characteristically modern neglect back to Locke's political theory of depoliticized money during the Coinage Crisis of 1695-1696. Locke's insistence on the unalterability of money's metal value sought to protect currency from political interference and guarantee its role as a stable anchor of property, society, and colonial trade. Though still building on the Aristotelian nominalist premise, Locke derived a radically new conclusion. Recognizing currency's conventionalist origin did not translate into an embrace of the malleability of the monetary standard but gave rise to worries about fragility. One effect – intended if nonetheless ironic – of the enormous influence of Locke's position has been to render money's malleable political dimension that had so disturbed Locke largely invisible.[39] Adam Smith, for example, agreed with Locke's strictures against devaluation and political meddling, but in his reasoning Smith naturalized what in Locke had still been a political argument for stabilizing money's conventionality. Instead, Smith insisted that money's value "is not as Mr. Locke imagines founded on an agreement of men to put it upon them; they have what

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[39] If liberalism has a tendency to transform history into nature and politics into rights, we can thus detect in the modern forgetting of the politics of currency a distinctly liberal blind spot.

we may call a naturall value."[40] The old Aristotelian premise of conventionality, still shared by Locke, was thereby lost. Where it succeeded, Locke's political theory of money obscured money's political character. At least in times of tranquility, money was all too easily naturalized, mythologized, and commodified – its value and meaning treated as natural and apolitical, its rich history of political contestation covered by thick layers of naturalizing dust.

Having once been a political prerogative in the public domain, currency was handed over to the private interests of the market. In imagining money as a matter of the market that would set its price (the rate of interest), those who followed in Locke's wake could elide the politics of currency. The Lockean argument was only ever one aspect of the modern depoliticization of money. If during the seventeenth century Locke developed an account that restricted the ability of governments to set the value of money, at the same time the issuance of money, as Christine Desan has shown, was likewise moving away from the state. Whereas almost the entirety of a country's money had hitherto consisted of sovereign currency, during the seventeenth and eighteenth centuries notes issued by banks began to make up an increasingly significant share of money. Relatedly, the rise of public credit meant that where states had once charged for the minting of metal into coinage, now they paid interest on public debt. As Desan has even suggested, the distinctive quality of capitalism lies precisely in this privatization of modern money. Capitalism, she argues, "constructed a money tuned by individual exchange for profit,

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40 Adam Smith, "Early Draft of the Wealth of Nations," in *Lectures on Jurisprudence*, ed. R.L. Meek, D.D. Raphael, and P.G. Stein, Glasgow Edition of the Works and Correspondence (Oxford: Clarendon Press, 1978), 370 [LJ (A) vi, 106].

institutionalizing that motive as the heart of productivity."[41] What this argument brings into focus is just how extraordinary it is that the private creation of money has become taken for granted in contemporary capitalism. If money is a constitutional order, to allow private banks to issue money through credit creation amounts in effect to a privatization of constitutional questions. From this vantage point, calls for the full privatization and denationalization of money, as advanced by Friedrich Hayek during the 1970s (Chapter 5), can easily appear as the logical completion of a process set into motion in the seventeenth century. Indeed, this was how Hayek himself framed his proposal.[42]

But as a generation of economic sociologists has by now shown in detail, and as each of my moments illustrates in practice, markets and money (as well as the market for money) are constructed by politics. The rise of private money and the seeming naturalness of money more generally is on this account not a structural necessity but the contingent outcome of political struggles that has subsequently become naturalized and mystified. As I want to suggest in this dissertation, by recovering discussions of currency in the history of political thought we can crack this false pretense of nature and defamiliarize what has become too familiar. The economic anti-politics of money should in this sense not be taken at face value but is instead best understood as a peculiarly liberal (or proto-liberal) politics of depoliticization.

While the privatization of money is often presented as an inexorable aspect of modernity or capitalism, the modern depoliticization of money is less a structural necessity than an expression of a particular kind of politics. Monetary depoliticization

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41 Desan, *Making Money*, 434.

42 Friedrich August Hayek, "Toward a Free Market Monetary System [1977]," in *Good Money, Part II*, ed. Stephen Kresge, The Collected Works of F.A. Hayek, Vol. 6 (Indianapolis: Liberty Fund, 1999), 236.

was never anything but a political strategy itself. Crucially, this means that the concrete shape of our politics of money and the modern privatization of money are far less inevitable than might appear at first sight. Each of my moments attests to this open-endedness. In every instance even close observers were stunned by the sudden expansion of the realm of possibilities and the unexpected turn events took. As the former Labor Minister Sidney Webb demurred when Britain left the interwar gold standard in September 1931, "Nobody told us we could this."[43]

Even where reforms failed, that failure was subsequently often rendered an inevitability as the proposal dropped from memory. Consider, for example, the so-called Chicago Plan for "100% Money" that gained prominence during the 1930s. Though it failed to get implemented it was once championed by some of the most influential economic thinkers of the twentieth century. Irving Fisher, Yale's first Economics PhD in 1891 and the closest American equivalent to Keynes as a monetary sage, lobbied President Roosevelt unceasingly during the 1930s about abolishing the ability of private banks to create public currency.[44] In his monetarist proposal, Milton Friedman similarly coupled the abolition of discretionary control by central banks to the simultaneous abolition of the private creation or destruction of money.[45] Having long been assigned to

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43 A.J.P. Taylor, *English History, 1914-1945* (Oxford: Oxford University Press, 1965), 297. Also paraphrased in Fred Hirsch, *Money International* (London: Penguin, 1969), 20.

44 See his pamphlet Irving Fisher, "100% Money and the Public Debt," *Economic Forum* (April-June 1936), 406-20. For Fisher's correspondence with Roosevelt and Marriner Eccles, Chairman of the Federal Reserve, see Irving Fisher Papers (MS 212), Yale University Library, Manuscripts and Archives, Series 1, Box 11.

45 Milton Friedman, "A Monetary and Fiscal Framework for Economic Stability," *American Economic Review* 38 (June 1948), 245-264. Before being adapted by Friedman and Henry Simons at the University of Chicago, the abolition of fractional reserve banking had been proposed by the British chemist Frederick Soddy during the 1920s.

the dustbin of economic history, in the wake of the global financial crisis the proposal has recently made a surprising comeback and is once more discussed in earnest.[46] Campaigns and consultations are currently under way in Iceland and Switzerland on whether to prohibit banks from creating money.[47]

One therefore does not have to jettison either liberal modernity or capitalism to question the current monetary constitution. Instead, one can trace the current contours of the politics of monetary depoliticization in the hope of contesting them instead of abolishing them altogether. My guide on this journey will be John Maynard Keynes (Chapter 4). Against those who presented society and currency as spontaneous orders brought about by the natural forces of the market, Keynes consistently stressed the political preconditions of money. As Keynes recognized, any monetary order – domestic or international – rests on a set of political compromises, impositions, and visions familiar from constitutional politics. This did not have to entail the vision of a fully politicized economic order but it implied instead an awareness of the political foundations of economic life and a willingness to potentially break economic contracts on political grounds of justice and stability. As a result, Keynes argued for the need to bring money under deliberate and politically legitimate control by removing it from the

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46 Both the IMF research division and, more cautiously, Adair Turner, a British economist and civil servant, have recently re-introduced the proposal into public discussion. Jaromir Benes and Michael Kumhof, "The Chicago Plan Revisited," *IMF Working Paper* WP/12/202 (August 2012). Adair Turner, *Between Debt and the Devil: Money, Credit and Fixing Global Finance* (Princeton: Princeton University Press, 2015), 10, 187-190, 220-221.

47 The Swiss campaign – the so-called *Vollgeldinitiative* – recently gathered enough signatures to be put forward as a referendum in 2016. In 2015, the Icelandic Prime Minister commissioned a report on monetary reform that explored the same question. *Monetary Reform: A Better Monetary System for Iceland. A Report by Frosti Sigurjonsson, with a Foreword by Adair Turner* (Reykjavík, March 2015).

naturalistic illusion that easily obscured its political foundations. But at the same time, Keynes shared a sense of the liberal desirability of economic depoliticization, of the challenges democratic politics poses for deliberate monetary policy, and of the international dimension of the politics of money. Keynes's constitutional approach to the politics of monetary depoliticization allows for economic neutralization as long its terms are fair and do not exclude the possibility of politics as a necessary corrective.

If liberal political theory today grapples with the influence of neoliberalism and the difficulties of democratic politics in the face of economic pressures and constraints, there is much to be gained from a deeper engagement with Keynes. Liberalism may tend toward economic depoliticization but at least in the case of money this does not have to entail an all-encompassing depoliticized view of economic life. Depoliticization is instead better understood not as an escape from politics but as itself a form of politics that cannot escape standards of justification and that must be able to recognize the potential need for re-politicization if necessary to restore equity.

The Missing Political Theory of Money

Let me relate this account of the politics of currency back to the way political theory tends to approach money today as largely irresponsive to questions of justice and unworthy of normative analysis. While the framing of money as an economic tool of abstraction has enabled powerful accounts of commodification, its implicit flipside is rarely considered. In attempting to contain the intrusion of money into politics, political theorists not only often accept the premise that money is merely economic in the first place but also unwittingly render the monetary order into a largely unchangeable, quasi-natural entity. As I argue in Chapter 5, in insisting on the purely systemic character of money, Jürgen Habermas, for example, refuses to grant money the kind of ambivalence he affords to law. Whereas Habermas describes law as suspended between systemic facticity and communicative normativity, money is on this account unambiguously norm-free and "delinguistified."[48]

Considered in the light of the history of political thought, the neglect of the politics of money should strike us as odd. Given the monetary changes of the past thirty years with which I opened, political theorists' disavowal of the politics of money becomes all the more intriguing. Today, the 1970s are widely seen as a defining decade of transition in international politics, the world economy, and political theory itself. But if the 1970s were a period of rupture, nowhere was this more the case than in monetary matters. The end of the Bretton Woods system between 1971 and 1973 meant nothing less than a revolution in modern money that radically altered the global monetary constitution. The golden monetary anchor was cut for good. Instead, as fiat money, currencies now rested only on the credit and promise of the state. The word of the state alone – *fiat* or "Let it be done!" – now sufficed to make money.

Initially, this implied unprecedented possibilities for the politicization of money. But instead of enabling an embrace of the malleable self-reflexivity of economic and political organization, political control of fiat money took an unpredictable direction. The end of Bretton Woods coincided with the first oil price shock of 1973 and a sharp acceleration of inflation, the highest ever experienced outside of wartime or postwar

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48 Jürgen Habermas, *The Theory of Communicative Action, Vol. 1: Reason and the Rationalization of Society [1981]*, trans. Thomas McCarthy (Boston: Beacon Press, 1984), 359; Jürgen Habermas, *Theorie des Kommunikativen Handelns* (Frankfurt am Main: Suhrkamp, 1981), vol. 1, 480.

conditions. This experience of inflation triggered a political response of economic depoliticization that continues to define our present. Toward the end of the inflationary 1970s, the politics of money began to change dramatically once more as governments strove to close down the political possibilities of fiat money. Money was depoliticized on new terms. Governments delegated monetary policy to independent central banks with narrow technical mandates and constrained themselves in their ability and willingness to politicize economic conflicts. Confronted with the poietic possibilities of modern fiat money, the response was one of closure.

It was this context of the most recent depoliticization of money in the name of disinflation during the 1980s that rendered plausible Habermas's reduction of money to a "norm-free steering medium" or Michael Walzer's separation between politics and the economy as distinct spheres of justice.[49] The sidestepping of the politics of money by contemporary political theorists is in this sense indicative of the latest wave of the depoliticization of money since the late 1970s. Reduced to an economic institution whose reach into politics has to be constrained and contained, money was cast outside of political thought. Even worse, by placing money outside of politics, Habermas and Walzer unwittingly accepted the depoliticization of money and economic relations, thereby immunizing the new monetary constitution against critique and forestalling normative and political thinking about questions of monetary justice as well as international monetary reform. Instead, they channeled their critique into a largely

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49 Michael Walzer, *Spheres Of Justice: A Defense Of Pluralism And Equality* (New York: Basic Books, 1983). See also Michael Walzer, "Liberalism and the Art of Separation," *Political Theory* 12, no. 3 (Aug., 1984), 315-30; here: 315.

defensive posture that has since sought to protect a realm of politics from external economic and monetary influence.[50]

Until the Financial Crisis of 2007-2008, this framing of money as somehow outside of politics was rarely challenged. Since then, the promises of the so-called Great Moderation have unraveled and with them the illusion of apolitical money. Central bankers suddenly found themselves inadvertently cast into the political limelight as the political origins and implications of their decisions were laid bare for everyone to see. It is through this experience of crisis that it is once more possible, and necessary, to speak of the politics of money, and to raise questions of political legitimacy and justice. Narratives of the separation of economics and politics are a long-standing, perhaps even constitutive feature of modern liberal political thought. But if coinage formed an important aspect of the political self-understanding of the ancient polis and the early-modern state, in liberal modernity the politics of money is hardly any less central. The political side of money is often shrouded in myth and rendered invisible today, but its effects have scarcely been reduced. While economic complexity undoubtedly poses challenges for the unpredictable temporality of democratic politics, the solution cannot lie in the removal of economic life from politics. Depoliticization might be hard to avoid. But it must never be closed off against critique and justification.

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[50] This framing continues to motivate much of the recent literature on commodification. Debra Satz, *Why Some Things Should Not Be For Sale. The Moral Limits of Markets* (Oxford and New York: Oxford University Press, 2010). Michael J. Sandel, *Public Philosophy: Essays in Morality and Politics* (Cambridge MA: Harvard University Press, 2005).

Moments of Monetary Politics

As my epigraph – taken from Keynes – highlights, money has an intimate relation to temporality and history.[51] Already Aristotle introduced currency in the *Nicomachean Ethics* as a solution to the strictures of time by describing how money enabled future exchange (NE 1133b10). As Locke emphasized to great effect, unlike natural goods, money does not spoil.[52] The advent of modern public credit and historical consciousness since the eighteenth century has further compounded this temporal dimension. Modern money is deeply entwined with modern historical consciousness. The moment in which the modern state harnessed itself to fiat currency backed by public credit was in J.G.A. Pocock's words "a momentous intellectual event" that entailed nothing less than "a sudden and traumatic discovery of historical transformation."[53] The rise of fiat money backed by the credit of the state was mirrored by a new sense of historical temporality and secular change. By placing value in a permanently postponed future, the pervasiveness of credit changed both the nature of the state and citizens' relation to it. Sovereignty and the imagined community underlying it became temporalized.

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51 Referring to the materiality and symbolism of both coins and paper money, the historian Rebecca Spang has recently argued that money is "one of the tools through which people know the past and imagine the future." Spang, *Stuff and Money*, 2. After all, reliable historical knowledge on the ancients was long restricted to surviving numismatic evidence.

52 John Locke, "Second Treatise of Government," in *Two Treatises of Government* [1689], ed. Peter Laslett (Cambridge: Cambridge University Press, 2010), ch. 5.

53 J.G.A. Pocock, *Virtue, Commerce and History: Essays on Political Thought and History, Chiefly in the Eighteenth Century* (Cambridge: Cambridge University Press, 1985), 108. As Pocock remarks, "The problem of paper currency is acutely relevant here." (113) See also Michael Sonenscher, *Before the Deluge: Public Debt, Inequality, and the Intellectual Origins of the French Revolution* (Princeton: Princeton University Press, 2007).

Suspended between an ever-expanding horizon of expectations and an increasingly unstable space of experience, modernity's new historical consciousness also implied a constant state of critique and crisis.[54] To focus on monetary crises seems in this context particularly appropriate not only because the history of monetary thought is written in a pattern of crises but also because crises imply a destabilization of the relation between past, present, and future. Whereas periods of calm are characterized by a continuous reproduction of meaning based on repeated enactment, moments of crisis are marked by rupture and openness. It is consequently in moments of crisis in particular that ideas and the political control of those ideas come to matter vastly more than in periods of stability.[55] If crises mobilize ideas, they are also the entry point for critique, just as critique can itself engender crisis by questioning the unquestionable.[56] Philosophical critique is, in Seyla Benhabib's words, always a theory of crisis.[57]

This dissertation is thus structured as a study of five historical episodes of monetary politics and their imprint in the history of political thought and political theory: the invention of coinage in the Greek world in the seventh century BCE; the long monetary crisis of the seventeenth century that culminated in the Great Recoinage of

54 Jürgen Habermas, "Conceptions of Modernity. A Look Back at Two Traditions," in Jürgen Habermas, *The Postnational Constellation. Political Essays*, translated, edited and with an introduction by Max Pensky (Cambridge MA: The MIT Press, 2001), 134-135. See also Reinhart Koselleck, *Futures Past: On the Semantics of Historical Time*, ed. Keith Tribe (Cambridge MA: The MIT Press, 1985).

55 Mark Blyth, *Great Transformations. Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge: Cambridge University Press, 2002), 16.

56 Reinhart Koselleck, *Critique and Crisis: Enlightenment and the Pathogenesis of Modern Society* (Cambridge MA: The MIT Press, 1988).

57 Seyla Benhabib, "Von Horkheimer zu Habermas und in die Neue Welt," *Blätter für deutsche und internationale Politik* 8 (2014), 100-101. See also Seyla Benhabib, *Critique, Norm, and Utopia. A Study of the Foundations of Critical Theory* (New York: Columbia University Press, 1986), 19-21.

1696; the introduction of fiat paper money by the Bank of England in 1797; the collapse of the interwar gold standard in the early 1930s; and finally the politics of inflation and disinflation that followed the implosion of the Bretton Woods system and that continue to define our contemporary monetary order. Using these moments of monetary politics as my frame, I proceed to reevaluate the political thought of Aristotle, John Locke, Johann Gottlieb Fichte, John Maynard Keynes, and Jürgen Habermas, stressing in each case the neglected relation between money and political thought. In each episode I bring together a detailed contextualist reconstruction with an attention to broader transtemporal questions concerning the political theory of money.

Over the past two decades historical contextualism has rightly become the standard mode of intellectual history and the history of political thought. By conceiving of political thought as strategic moves within political language games, scholars could newly explore authorial intention and the meaning of texts in the historical context of specific political debates.[58] But if the increased attention to historical specificity and the improved historical dexterity of political theorists have brought about a renaissance in the history of political thought, a subtle unease about the unintended consequences of contextualization has recently emerged. Reading texts as contributions to specific political debates enriched their historical specificity but it also meant that contexts could easily become more and more narrowly circumscribed. As David Armitage has critically noted, there are good reasons to mourn a neglect of more diachronic questions and the ways in which texts that have been transmitted over time also function as contexts.

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58 Quentin Skinner, "Meaning and understanding in the history of ideas," *History and Theory* 8 (1969).

Armitage has offered a number of antidotes, but it is his notion of serial contextualism that informs the framing I have chosen for this dissertation.[59] Serial contextualism does not seek to shed the specificity of historical moments but instead links several moments to each other by attending to the diachronic links between them, be it in the form of recurrent questions or the diachronic reception of texts. Such a transtemporal history of political thought is thus not timeless but combines – like all historical writing – synchronic reconstruction with diachronic narrative. Serial contextualism does not repudiate contextualism but expands it by acknowledging the reach of historical texts and questions as additional contexts. Few political questions are truly perennial but this does not mean that we can dispense with the diachronic dimension of history and disregard continuities in the political challenges we face.

This dissertation is thus not meant as a comprehensive history of money in political thought but rather as an episodic narrative of a genealogy that peels away some of the layers that have come to define the way we look at money today. My study is in this sense one of serial contextualism that recovers and rearranges a select number of critical inflection points in monetary politics. Tying these moments together is a set of recurring concerns with monetary politics that unfold as a conversation across time. In each moment of crisis, thinkers returned to foundational texts from previous crises in an attempt to elucidate the conditions of their own historical situation. The history of political thought about currency accumulated in layers of sediment made of crises.

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[59] David Armitage, "Intellectual History and the Longue Durée," *History of European Ideas* 38, no. 4 (2012), 1-15.

Chapter 1 offers a reading of Aristotle's account of reciprocity that brings to the fore a neglected argument about the political role of currency (*nomisma*) as the enabler of reciprocity and justice among citizens. The importance of the political institution of currency in Aristotle is usually obscured by overly narrow readings of reciprocity as gift exchange or overly broad readings of Aristotle's critique of wealth accumulation as extending to all monetary exchanges. Instead I argue that for Aristotle the crucial formation of habits of generalized reciprocity among citizens is linked to the exchange of political tokens. Currency forms on this reading a constitutive pillar of the political community as the medium through which justice is expressed and served. Aristotle's conception of currency is nonetheless an ambivalent one. Although currency was a necessary tool for the any political community it is also a store of wealth and as such prone to the vices of excessive accumulation and corruption.

Chapter 2 introduces John Locke and turns to his influential involvement in the Coinage Crisis of 1695. In doing so, I offer an integrated account of Locke's philosophy of language and his political philosophy of money as characterized by an ambivalent worry about the fragility of societal trust and the threat posed by semantic instability. Drawing on Locke's monetary writings, I complicate existing accounts of his relation to liberalism by emphasizing his contributions to the politics of money – ranging from his worries about trust to the monetary pressures of colonial trade. Locke's insistence on the unalterability of money's metal value, I argue, inaugurated a proto-liberal political philosophy of depoliticized money, the very success of which would come to obscure its own political nature.

Chapter 3 builds on the recent historiography of late eighteenth-century political thought on commercial society and relates it to discourses of public credit and national fiat money. If some looked at the expansion of public debt and paper money in apocalyptic anxiety, for others the new monetary possibilities radically expanded their hope of attaining a far-ranging moral transformation of domestic and international economic relations. To deepen the specifically monetary dimension of these debates, I turn to the British suspension period of 1797 to 1821 and trace its political and philosophical repercussions in the political thought of Johann Gottlieb Fichte.

Chapter 4 explores the question of interwar monetary reform through John Maynard Keynes's call for the constitutionalization of money. In setting out Keynes's monetary thought and linking it to a reevaluation of his political thought, I turn to Keynes's distinct vision of a liberal politics of depoliticization that refused binaries and instead mediated between the national and international, as well as the political and economic side of money. According to Keynes, the question was not so much whether money should be politicized or depoliticized but on what political terms the depoliticization took place and how politics would be able to intervene in processes of depoliticization that had become too odious. Having outlined the theoretical account behind the politics of depoliticization, the chapter turns to Keynes's vision of the international monetary order, expressed in his role during the crisis of 1931-1933 and his plans for an international currency union during the 1940s.

Chapter 5 turns to the politics of money after the collapse of the Bretton Woods monetary system in 1971-1973 and contrasts the pervasive contemporary discussions of international and national monetary politics with their almost complete absence in political theory since the late 1970s. Exploring once more the analogies and disanalogies between money and speech, I illustrate through an engagement with Jürgen Habermas how the most recent turn in the politics of monetary depoliticization has cut off money from speech and largely removed questions of currency from contemporary political thought.

By the end of the dissertation, I hope to have articulated the need for renewed political thought on currency in order to overcome narratives that tend to render the politics of money invisible. This means, as a first step, establishing the ways in which discussions of currency form a constitutive part of the history of political thought. But I also hope to have shown some paths in which political liberalism's neglect of currency can be addressed by subjecting a monetary regime to demands of justice and justification familiar from other political institutions and constitutional orders. While modern money is a complex tool of economic accumulation, as currency it is at the same time a political institution of reciprocity whose benefits and burdens require fair sharing. Money may be filthy lucre but it is also the currency of justice.

– Chapter One –

COINAGE AND THE POLIS

Aristotle on Currency as a Political Institution

> No society can exist without exchange, no exchange without a common measure, and no common measure without equality. Thus all society has as its first law some conventional equality, whether of men or of things. . . . Conventional equality among things prompted the invention of money, for money is only a term of comparison for the value of things of different kinds; and in this sense money is the true bond of society.
>
> Jean-Jacques Rousseau[1]

1.1 Introduction

In January 1924, having just published his *Tract on Monetary Reform* and watched Weimar Germany's currency blow up in a spectacular burst of hyperinflation, John Maynard Keynes turned to the ancient past. Soon he was "absorbed to the point of frenzy," pursuing the historical origins of money as far as ancient Mesopotamia.[2] But as he swiftly admitted, the search for money's origins was futile. Instead, Keynes began compiling notes on ancient Athens and Aristotle. An unexpected world of monetary politics opened up in front of him. Only a few decades earlier, in 1891, a papyrus

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1 Jean-Jacques Rousseau, *Emile. Or, on Education*, Introduction, Translation, and Notes by Allan Bloom (New York: Basic Books, 1979), 189; Rousseau, "*Émile ou De l'éducation*," *Oeuvres complètes*, tome IV (Paris, Bibliotheque de la Pleiade: 1967), 461.

2 John Maynard Keynes to Lydia Lopokova, January 18, 1924. As quoted in Robert Skidelsky, *John Maynard Keynes: The Economist as Savior, 1920-1937* (London: Macmillan, 1992), 175.

manuscript of the long lost Aristotelian *Constitution of the Athenians* had been discovered, to great excitement, in Egypt.[3] Keynes was one of the first generation of scholars to pore over this treasure, and the monetary reforms introduced by Solon, the sixth-century lawgiver, immediately caught his attention. After studying and translating parts of the text, Keynes concluded that the *political* history of money had begun in Athens "with Solon, the first statesman whom history records as employing the force of law to fit a new standard coin to an existing money of account."[4] Solon, at least, had understood the political aspect of currency that struck Keynes as so important in his own time.

Keynes was far from the only one to be sent back to Aristotle by a modern monetary impasse. As I indicated in the introduction, Marx's *Capital* opens with a reading of Aristotle on exchange and money.[5] In the twentieth century, Karl Polanyi, Moses Finley, and Cornelius Castoriadis all explored this link from Marx to Aristotle, and back to us. In this chapter, I explore the imprint left by the Athenian politics of

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3 Written perhaps by Aristotle himself; more likely by one of his students. Ps.-Aristotle, *The Athenian Constitution*, trans. H. Rackham, Loeb Classical Library (Cambridge MA: Harvard University Press, 1935). See also P. J. Rhodes, *A Commentary on the Athenaion Politeia. Revised Edition* (Oxford: Clarendon Press, 1993).

4 John Maynard Keynes, "Note on the Monetary Reform of Solon," in *The Collected Writings of John Maynard Keynes, Vol. 28* (Cambridge: Cambridge University Press, 1982), 226. Aristotle, *The Athenian Constitution*, 32 [*Ath. Pol.* 10]. In August 1920, Keynes had first compiled notes on Solon. John Maynard Keynes Papers, Archives Centre, King's College, Cambridge, TM/3/1. Already before the war Keynes had studied the classics and acquired a penchant for Aristotle. "Have you read the Ethics of that superb Aristotle? There never was such good sense talked," he wrote to his friend Lytton Strache on January 23, 1906. As quoted in Robert Skidelsky, *John Maynard Keynes: Hopes Betrayed, 1883-1920* (London: Macmillan, 1983), 167.

5 Karl Marx, *Capital. Volume One* [1867], trans. Ben Fowkes (London: Penguin, 1976), 125-177; Karl Marx, *Das Kapital*, Marx Engels Gesamtausgabe (MEGA), Zweite Abteilung, Band 6 (Berlin: Dietz Verlag, 1987), 69-113.

money and offer a reading of Aristotle's neglected nominalist account of currency (*nomisma*) as a central political institution.[6] On Aristotle's conception, currency fulfilled three essential political functions. For one thing, it acted as a medium of civic commensurability that forged bonds of abstract reciprocity and impersonal trust among citizens, in lieu of the personal bonds that had marked the archaic period. For another, it served as a conventional measure of justice that enabled both distributive and corrective justice, and ensured the just distribution of wealth and honor. Finally, currency cultivated virtues of citizenship by encouraging a range of voluntary activities that furthered civic-mindedness and checked the limitless accumulation of wealth. As Keynes recognized, behind Solon's celebrated new emphasis on conventional constitutional law there loomed another political innovation: currency issued by the polis.

If modern Aristotle scholars have largely neglected this argument, part of the blame rests no doubt with the notorious difficulty of adequately translating *nomisma*. As I want to suggest, if we pay close attention to the Greek terms underlying Aristotle's discussion of political justice and reciprocity in the *Nicomachean Ethics*, a first hint of how to unravel the link between currency and the polis begins to emerge. The starting point for my argument is thus the observation that the ancient Greeks did not have a concept of "money" that maps onto ours.[7] Instead, behind what is usually rendered "money" stand two Greek terms: *chrēmata*, which meant material wealth in general,

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[6] Translations rely heavily on Aristotle, *Nicomachean Ethics*, trans. Terence Irwin (Indianapolis: Hackett, 1999) for the *Nicomachean Ethics* (hereafter NE) and Aristotle, *Politics*, trans. C.D.C. Reeve (Indianapolis: Hackett, 1999) for the *Politics* (hereafter Pol). Where I have adapted the translation this is marked in a note. For classical sources other than Aristotle, I provide both page references to a modern edition as well as standard classical references.

[7] Sitta von Reden, *Exchange in Ancient Greece* (London: Duckworth, 1995), 173.

including non-monetary wealth; and *nomisma*, which indicated a specific conception of currency rather than money as such. As the classicist Sitta von Reden puts it, "*nomisma* referred most generally to anything that was sanctioned by current or established usage. This meaning became more and more associated with coinage yet never lost its wider connotations."[8] *Nomisma* thus retained a connotation of collective political choice arguably absent from the modern English "money," and that connotation is crucial to Aristotle's conceptualization the uses of currency in the polis. Many scholars have concluded from this analysis that the Greeks lacked a word for money. But as I will argue in this chapter, and indeed throughout this dissertation, there is another possibility. If *nomisma* highlights the political dimension of money in a way now nearly invisible to us, we, in short, lack a proper term for money, not the Greeks.[9]

When approaching Aristotle's argument with a preformed and anachronistic concept of "money" in mind, the political significance of *nomisma* is easily obscured. Once we, by contrast, attend to how Aristotle employs *nomisma*, the political dimension of his discussion of currency emerges clearly. Arguing against the limitless pursuit of wealth in the *Politics*, Aristotle usually speaks of *chrēmata*, material wealth, or *ploutos*, wealth in the abstract. When he concludes, in Reeve's translation, that "the love of honor and the love of money are the causes of most voluntary wrong-doings among human beings," the phrase "love of money" actually translates *philochrēmatia*, the love of wealth (Pol. 1271a15-17). In his discussion of justice and reciprocity in the *Nicomachean*

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8 von Reden, *Exchange in Ancient Greece*, 189n22.

9 As a reminder of this gap, I have left *nomisma* at times untranslated. Where translated, I have rendered it as currency to preserve the conventional, "quasi-fiduciary" character that was explicit linguistically and practically. Josiah Ober, *Democracy and Knowledge. Innovation and Learning in Classical Athens* (Princeton: Princeton University Press, 2008), 237.

Ethics, by contrast, the term Aristotle uses is always *nomisma*, which designates not any kind of money but coinage issued by the polis.[10] *Chrēmata* can certainly mean money, just as currency (*nomisma*) is a form of wealth (*chrēmata*). But to elide the conceptual distinction between *chrēmata* and *nomisma* obscures not only Aristotle's argument but also forestalls a more political conception of currency.

Following earlier analyses by Karl Polanyi and Moses Finley, recent work on the history of ancient money has persuasively established the symbolic, philosophical, and political significance of coinage in the classical Greek world.[11] As these scholars have shown, the spread of currency through the Greek world in the sixth and fifth century BCE went hand in hand with the development of new forms of political rule and abstract reciprocity. Currency played a central role in the Greek political project, and this centrality is fully reflected in the account of reciprocal justice found in the *Nicomachean Ethics*. "A polis," Aristotle asserts, "is maintained by doing things in return according to proportion." (NE 1132b33) Similarly, in the *Politics* he writes that "reciprocal equality preserves city-states, as we said earlier in the Ethics." (Pol. 1261a30-32) Reciprocity has recently started to receive the attention it deserves, but where other scholars have focused on the roles of law and rhetoric in fostering relations of reciprocity, I here stress the

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10 As a reminder of this gap, I have left *nomisma* at times untranslated in this chapter. Where translated, I have rendered it as currency. My reasons for avoiding "money" should be clear. I have mostly preferred "currency" over "coinage" to emphasize the nominal nature that was explicit linguistically and also found expression in the fact that Greek coins were not simply stamped according to weight but usually traded domestically at a nominal value in excess of its metal value. See John Kroll and Alan Walker, *The Greek Coins*, vol. XXVI (Princeton: The American School of Classical Studies at Athens, 1993).

11 See, in particular, von Reden, *Exchange in Ancient Greece*; Leslie Kurke, *Coins, Bodies, Games, and Gold. The Politics of Meaning in Archaic Greece* (Princeton: Princeton University Press, 1999); Richard Seaford, *Money and the Early Greek Mind: Homer, Philosophy, Tragedy* (Cambridge: Cambridge University Press, 2004).

significance of currency in this context.[12] Not just the mediation of law and the exchange of words but also the circulation of *nomisma* was an essential aspect of political reciprocity and justice in the ancient polis.

Ancient Greek coins were made of precious metal, but they traded conventionally at a value based on their stamp that acted as a guarantee of redeemability.[13] What enabled coinage to trade at conventional values, often in excess of their metal value, was the collective trust of the polis and the habitual acts of reciprocity sustaining this trust. Political scientists have long emphasized the importance of generalized reciprocity and trust for "making democracy work."[14] Trust has similarly been regarded as a prerequisite for capitalism.[15] Here, I focus on the prior question of what grounds this trust by suggesting that the use of currency in the ancient world enabled new forms of impersonal trust production among the citizens of the polis. As analyzed by Aristotle, various forms

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12 For recent readings of Aristotle that are attentive to the importance of reciprocity, see Danielle Allen, *Talking to Strangers. Anxieties of Citizenship Since Brown v. Board of Education* (Chicago: University of Chicago Press, 2004); Gabriel Danzig, "The Political Character of Aristotelian Reciprocity," *Classical Philology* 95, no. 4 (2000), 399-424; Jill Frank, *A Democracy of Distinction. Aristotle and the Work of Politics* (Chicago: Chicago University Press, 2005); and Kazutaka Inamura, *Justice and Reciprocity in Aristotle's Political Philosophy* (Oxford: Oxford University Press, 2015). By contrast, *The Blackwell Guide to the Nicomachean Ethics* only contains a single paragraph on reciprocity that is described as "an appendix of some sort, whose relevance to the main discussion Aristotle would have clarified in a later draft." Charles Young, "Aristotle's Justice," in *The Blackwell Guide to Aristotle's Nicomachean Ethics*, ed. Richard Kraut (Oxford: Wiley-Blackwell, 2006), 187.

13 David Schaps, *The Invention of Coinage and the Monetization of Ancient Greece* (Ann Arbor: University of Michigan Press, 2004).

14 Putnam not only consciously used the monetary metaphor of "social capital" but suggested that the networks of civic trust in Northern Italian cities during the Renaissance had laid the foundation for the invention of modern credit. Robert D Putnam, *Making Democracy Work* (Princeton: Princeton University Press, 1993), 128.

15 Francis Fukuyama, *Trust: The Social Virtues and The Creation of Prosperity* (New York: Free Press, 1995).

of exchange conducted in the coinage of the polis fostered abstract social bonds of civic trust between citizens, enabled the pursuit of political justice, and helped to cultivate virtues of citizenship.

This argument gives rise to a larger interpretative re-framing. Many iconic readings of Aristotle contrast the world of speech and rhetoric in the *polis* with that of domination and private economic exchange in the *oikos*, or household.[16] This is understandable: as early as Book One of the *Politics* (Pol. 1253a1-18), for instance, Aristotle rebukes Plato for having failed to distinguish sufficiently between the two. While households are homogeneous and exist for the satisfaction of material needs, the polis is a community of difference in which citizens argue about justice and advantage by means of speech. Rhetoric has thus rightly been emphasized as a constitutive aspect of Aristotle's conception of politics. Exchange and currency have been predominantly associated with the household and consequently been neglected in these readings. Yet currency and exchange played an important role in Aristotle's account of the polis.[17] Though the pursuit of wealth for its own sake goes against the purpose of the political community, exchange, coordinated through the use of currency, straddles the divide between *oikos* and *polis* and thus helps to constitute Aristotle's account of politics. On

[16] Hannah Arendt offered the classic statement of this contrast between polis and oikos in Hannah Arendt, *The Human Condition* (Chicago: University of Chicago Press, 1958), 28-37.

[17] Martha Nussbaum and Judith Swanson have both challenged – albeit from different directions – readings that exclude the private and commercial exchange from Aristotelian political life. See Martha Nussbaum, "Aristotelian Social Democracy," in *Liberalism and the Good*, ed. R. Bruce Douglass, Gerald M. Mara, and Henry S. Richardson (London: Routledge, 1990) and Judith Swanson and David Corbin, *Public and Private in Aristotle's Politics* (Ithaca: Cornell University Press, 1992).

Aristotle's understanding, currency is itself a political institution that assists distributive justice and resembles speech in helping to foster trust and recognition.

All too often, contemporary political theorists and historians of political thought have too readily projected a distinction between politics and economics into the past.[18] As a result, the political dimension of currency in Aristotle's thought is easily obscured. But as I will argue in the subsequent chapters, once the political significance of currency is brought back into the frame, not only ancient but also modern political thought on money takes on a different cast. After all, most thinkers in the history of political thought until well into the eighteenth century regarded currency as a political institution. It was in particular Aristotle's nominalist account that shaped this conception.[19]

The chapter proceeds as follows. I first set out the main textual evidence concerning currency and monetary reciprocity in Aristotle's account of justice (section 2), followed by a brief account of the history of ancient Greek coinage (section 3). Next, I examine how currency relates to Aristotle's account of political justice, focusing on precisely how currency helps to foster political bonds and acts as a medium of political justice (section 4). I then illustrate the plausibility of Aristotle's argument in the context of distributive and corrective justice in classical Athens (section 5). Finally, I relate my

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18 For an important corrective, see David Grewal, *The Invention of the Economy*, Ph.D. diss. Harvard University (Cambridge MA, 2010).

19 If the nominalist account in the *Ethics* had long been the dominant account of money, during the seventeenth century the rise of conjectural histories of money in the natural law tradition increasingly turned to the *Politics* instead and extrapolated an account of money as born out of commerce. See, for example, Pufendorf's invocation of Book One of the *Politics* (1257a32-41) alongside the *Ethics.* Samuel Pufendorf, *De Jure Naturae et Gentium Libri Octo* (Oxford: Carnegie Classics of International Law Series, 1934), 5.1.11, 468. Samuel Pufendorf, *De Jure Naturae et Gentium. Of the Law of Nature and Nations, with an introduction by W. Simmons, two volumes*, trans. C. H. Oldfather and W. A. Oldfather (Oxford: Carnegie Classics of International Law Series, 1934), 5.1.12, 690-691.

account of Aristotle's political conception of currency to his more familiar worry about unnatural wealth accumulation (section 6), before concluding (section 7).

1.2 Reciprocity and Currency

When Aristotle turns to reciprocity (*to antipeponthos*) in Book Five, Chapter Five of the *Nicomachean Ethics*, he first brings up a view he associates with the Pythagoreans. "Some people think reciprocity is just without qualification [*haplōs dikaiōn*]." (NE 1132b21-22) This is sometimes interpreted as "simple reciprocity is justice," suggesting that the Pythagoreans regard justice as a simple kind of reciprocity.[20] Others, more plausibly, interpret it as "reciprocity is simply justice," suggesting the Pythagoreans took justice to be exhausted by reciprocity.[21] Part of this ambiguity may be intentional, for Aristotle will go on to reject both formulations while making room for a new notion of *proportional* reciprocity. Aristotle argues that justice cannot be reduced to reciprocity and that reciprocity does not simply coincide with distributive or corrective justice. But he also stresses that the kind of reciprocity he will discuss is not the simple reciprocity of retribution but a more complex form of reciprocity "based on analogy not equality [*kat' analogian mē kat' isotēta*]. (NE 1132b34) It is proportional reciprocity, or more literally reciprocity by analogy, that Aristotle has in mind.

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20 This is, for example, how Rackham translates it. Aristotle, *Nicomachean Ethics*, trans. H. Rackham, Loeb Classical Library (Cambridge MA: Harvard University Press, 1934), 279.

21 See, for example, Theodore Scaltsas, "Reciprocal Justice in Aristotle's Nicomachean Ethics," *Archiv für Geschichte der Philosophie* 77 (1995), 248-62 and Grewal, *The Invention of the Economy*.

Though, in terms of textual location, reciprocity lies at the heart of Aristotle's treatment of justice, the relationship between the two has often perplexed readers. Earlier in Book Five, Aristotle distinguished between two specific kinds of justice: distributive and corrective. Where distributive justice (*to dianemētikon dikaion*) is concerned with the distribution of honor, wealth (*chrēmatōn*), and "anything else that can be divided among members of a community who share in a political system" (NE 1130b32-33), corrective justice relates to the "corrective principle in transactions [*to en tois synallagmasi diorthōtikon*]." (NE 1131a1) Corrective justice divides into two further parts as it applies to voluntary or involuntary transactions.

Some have consequently argued, not without reason, that reciprocity is that part of corrective justice that has to do with voluntary actions.[22] Others, by contrast, have detected in the turn to reciprocity the introduction of a third kind of justice – either a more primitive form,[23] a separate ethical account of fair exchange,[24] or an aporetic proto-economic digression.[25] The rise of modern economics, in particular, has aided versions of this third reading. As a result, Aristotle's discussion of reciprocity and exchange is today often framed as an awkward proto-economic theory of exchange value. Read as such, the passage has left generations of interpreters frustrated. Joseph Schumpeter, for example,

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22 John Burnet, *The Ethics of Aristotle* (London: Methuen, 1900), 203.

23 Leo Strauss, *History of Political Philosophy* (Chicago: University of Chicago Press, 1987), 128.

24 Lindsay Judson, "Fair Exchange in Aristotle," *Oxford Studies in Ancient Philosophy* XV (1997).

25 Terence Irwin, *Aristotle's First Principles* (Oxford: Oxford University Press, 1988), 625; Young, "Aristotle's Justice," 187. For an excellent overview of the protracted interpretative disputes concerning the passage, see René Antoine Gauthier and Jean Yves Jolif, *L'éthique à Nicomaque. Introduction, traduction et commentaire* (Louvain: Publications universitaires, 1970), 369-380.

commended Aristotle's "analytic performance" but nonetheless concluded that the passage amounted to little more than "decorous, pedestrian, slightly mediocre, and more than slightly pompous common sense," "not only common sense but also commonplace, and further than this he did not advance."[26] There are substantial textual and contextual reasons to question such economistic readings. To begin with, the treatment of reciprocity in the *Ethics* is surely no digression: it leads directly to the conclusion that "we have now said what it is that is unjust and just." (NE 1133b30) This passage is also explicitly cross-referenced in the *Politics*, where reciprocity (*to antipeponthos*) arises as part of a discussion of the principle of sharing in the ruling of the city (Pol. 1261a33-35). On Aristotle's conception, reciprocity is evidently an important aspect of political justice, extending well beyond commerce narrowly conceived. He was neither inconsistent nor digressive when turning to reciprocity in his analysis of political justice.

Let me suggest one way to respect Aristotle's classification of two kinds of particular justice without having to navigate awkwardly around his account of reciprocity. The turn to reciprocity reflects not so much a textual break as a shift in perspective. Aristotelian reciprocity is not a separate kind of justice but a precondition and constituent aspect of political justice in general.[27] Reciprocity is not all there is to justice. But it holds a foundational and overarching position at the heart of political justice that enables distributive and corrective justice by affirming relations of mutuality.

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26 Joseph A. Schumpeter, *History of Economic Analysis* (London: Routledge, 2006), 54, 57. Another interpretative obstacle has been Marx's critique of the passage. Marx, *Capital*; Scott Meikle, *Aristotle's Economic Thought* (New York: Oxford University Press, 1995).

27 Gauthier and Jolif, *L'éthique à Nicomaque*, 371; see also D.G. Ritchie, "Aristotle's Subdivisions of Particular Justice," *The Classical Review* 8, no. 5 (1894); and Aristide Tessitore, *Reading Aristotle's Ethics* (Albany: SUNY Press, 1996).

Reciprocity, Aristotle explains, is central to the sustenance of communities based on exchange. "In exchange communities [*koinōniais tais allaktikais*], this way of being just, reciprocity based on analogy not equality, holds people together." (NE 1132b33-34) Far from relegating reciprocity thereby to commercial associations outside politics, Aristotle considers the polis to be one such community based on acts of reciprocal exchange, indeed its highest form (Pol. 1252a1-7; NE 1160a9-32). "A polis is maintained by proportionate reciprocity [*tō antipoiein analogon*]." (NE 1132b35) As Finley notes, in the discussion of reciprocity and currency in the *Nicomachean Ethics*, Aristotle does not use any of the conventional Greek terms for trade (as he does elsewhere) but instead speaks abstractly of mutual exchanges (*allaxis*) and agreements (*synallagma*).[28] The kind of exchanges Aristotle has in mind are not exclusively commercial ones but encompass diverse forms of interaction between citizens.

A number of readers of Aristotle have recently begun to correct for the prior scholarly neglect of Aristotelian reciprocity.[29] "Most contemporary legal and political philosophers," laments Jill Frank, "neglect his account of reciprocal justice entirely and few Aristotle scholars take it very seriously. ... That is unfortunate, for...Aristotle's expectations of reciprocal justice are high."[30] Danielle Allen similarly puts reciprocity at the center of her reading of Aristotle when arguing that Aristotelian citizenship rests on

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28 Moses Finley, "Aristotle and Economic Analysis," *Past and Present* 47 (1970), 3-25, 14.

29 Allen, *Talking to Strangers*; Danzig, "The Political Character of Aristotelian Reciprocity," 399-424; Frank, *Democracy of Distinction*; Kazutaka Inamura, "The Role of Reciprocity in Aristotle's Theory of Political Economy," *History of Political Thought* 17, no. 4 (2011), 565-87; and Inamura, *Justice and Reciprocity in Aristotle's Political Philosophy*.

30 Frank, *Democracy of Distinction*, 82.

"a developed discourse of reciprocity."[31] These efforts are worthwhile, and may be extended. If habitual acts of reciprocity are responsible for the formation of ties between citizens that keep them well disposed toward each other, speech is surely a crucial tool. But it is not the only one. The possibility of civic commensurability and the maintenance of political justice in the city also requires acts of symbolic, civic, and material reciprocity conducted via currency. The very possibility of a community of exchange, including that of the polis, depends according to Aristotle on the commensurability and reciprocity provided by currency. "*Nomisma* makes things commensurate [*summetros*] as a measure [*metron*] does, and equates them [*isazō*]; for there would be no association [*koinonia*] without exchange [*allagē*], no exchange [*allagē*] without equality [*isotēs*], no equality [*isotēs*] without commensuration [*summetria*]." (NE 1133b16-19)[32] I will return below to the complex theoretical questions raised by the different components of this claim but for now I want to highlight its plausibility in the ancient context.

1.3 *Nomisma* in the Ancient Greek World

The classical Greek world featured a striking abundance and diversity of coinage. The earliest known coins in the Western world were minted in Lydia, in present day Turkey, some time in the sixth century BCE – roughly contemporary with Solon, whose mythical visit to Croesus, then king of Lydia, formed part of ancient Athenian lore as told

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31 Allen, *Talking to Strangers*, 135.

32 As the author of the *Magna Moralia* puts it, "*nomisma* ... became the bond of the political community [*ten politiken koinonian sunethein*]." (*Mag. Mor.* 1194a24) See also NE 1133a25.

by Herodotus.[33] Shortly thereafter coinage spread rapidly throughout the Greek world. By the fourth century BCE, hundreds of Greek poleis, including Athens, were minting their own currency.[34] While the Greek passion for coins is well known, historians have long been perplexed by its meaning and significance. Confronted with the extremely fragmentary monetary map of the classical Greek world, economic historians have puzzled over the obvious "inefficiencies" and the nuisance of constant foreign currency exchange as symbolized by the omnipresent money-changers dwelling at the margins of the agora. Bewilderment over hundreds of Greek city-states issuing their own coinage only grows once we appreciate that both domestic and external trade had for centuries been conducted perfectly well with older forms of money such as uncoined precious metals based simply on weight.[35]

What those puzzled by the explosion of coinage had missed, Moses Finley suggested, was that ancient coins made political sense. "For a long time this passion was not shared by many of their most advanced neighbors, Phoenicians, Egyptians, Etruscans, Romans, because it was essentially a political phenomenon."[36] Coins were symbols of political autonomy. It was therefore "not surprising that the autonomous Greek states

33 Herodotus, *Histories*, vol. 1, Loeb Classical Library (Cambridge MA: Harvard University Press, 1975), 33-34. While the invention of coinage is widely regarded as broadly contemporaneous with Solon, Kroll suggests that Solon might not have lived to witness its invention. John Kroll, "The Monetary Use of Weighed Bullion in Archaic Greece," in *The Monetary Systems of the Greeks and Romans*, ed. W. V. Harris (Oxford: Oxford University Press, 2008).

34 Of the 1035 poleis catalogued by Hansen and Nielsen, a local mint and coinage is attested for 444. Mogens Herman Hansen and Thomas Nielsen, *An Inventory of Archaic and Classical Poleis* (Oxford: Oxford University Press, 2005), 148.

35 A. Meadows and K. Shipton, eds., *Money and its Uses in the Ancient Greek World* (Oxford: Oxford University Press, 2001).

36 Moses Finley, *The Ancient Economy* (Berkeley: University of California Press, 1973), 166.

made no substantial effort to abate the nuisance."[37] Rather, they established ferocious penalties for counterfeiting, which was considered not merely a commercial offense but a form of treason punishable by death.

Finley succeeded in shifting attention to ancient coinage as a specifically political phenomenon; yet he left the precise political role of currency somewhat vague. Over the past two decades, numerous scholars have explored the link between coinage and the classical Greek polis, illustrating the social, political, and philosophical significance of coinage beyond commercial exchange.[38] In contrast to market-based or neo-institutionalist accounts of early coinage, they have emphasized the symbolic dimension of exchange (von Reden), drawn attention to the contentious political struggles behind the spread of coinage (Kurke), and traced its profound philosophical implications (Seaford). Despite their differences, they have shown that the adoption of coinage bearing the stamp of individual city-states was closely related to a number of crucial intellectual, social, and political changes in the transition from the archaic Greek world to that of the classical polis. My account of Aristotle's conception of the constitutive political significance of currency as a tool of conventional political justice and civic reciprocity builds on this work.[39]

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37 Finley, *The Ancient Economy*, 167.

38 von Reden, *Exchange in Ancient Greece*; Kurke, *Coins, Bodies, Games, and Gold*; Schaps, *The Invention of Coinage and the Monetization of Ancient Greece*; Seaford, *Money and the Early Greek Mind.*

39 There is at the same time an important imperial ambivalence to currency. As the Athenian polis acquired an empire in the course of the fifth century BCE, it gradually extended its *nomisma* as a tool of imperial government. See Schaps, *The Invention of Coinage and the Monetization of Ancient Greece*, 142; Michael Vickers, "Fifth Century Chronology and the Coinage Decree," *The Journal of Hellenic Studies* 116 (1996), 171-74. Thomas Figueira, *The Power of Money. Coinage and Politics in the Athenian Empire* (Philadelphia: University of Pennsylvania Press, 1998). Once transferred abroad,

The first hint of how to flesh out Finley's intuition is embedded in the Greek word for coinage: *nomisma*. The word derives from *nomizein,* to acknowledge or to sanction something by established belief or custom. *Nomisma*, a plural noun, means "what is sanctioned," and it could indicate anything customarily and collectively affirmed. The earliest surviving occurrence attributes such an act of collective sanctioning to divine inspiration: "truly she [Athena?] was bringing together a scattered army, inspiring them with *nomisma.*"[40] The next extant usage concerns the standard Greek practice of shrieking during battle, describing it as the "Hellenic *nomisma* of sacrificial cry."[41] The meaning of *nomisma* as currency developed from this usage, though the original connotation was never fully displaced and often gave rise to witticisms.

In the *Clouds*, for example, Aristophanes has Socrates ask Strepsiades: "What gods indeed will you swear by? For the gods are not *nomisma* with us." Strepsiades responds to the pun with confused irritation: "What do you swear by? Iron *nomisma*, as in Byzantium?"[42] Here, the entire etymological spectrum of *nomisma* is covered as Socrates plays on collective belief, whilst Strepsiades reverts back to coinage.[43] This double

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currency – like law – was susceptible to lose its character as a collectively acknowledged tool of self-government. I here leave open whether Aristotle's account can also serve as a guide to this imperial ambivalence, though Mary Dietz has persuasively suggested so in a related context. Mary G. Dietz, "Between Polis and Empire: Aristotle's Politics," *American Political Science Review* 106, no. 2 (2012), 275-293.

40 Alkaios, as quoted in Seaford, *Money and the Early Greek Mind*, 143.

41 Aeschylus, *Persians. Seven against Thebes. Suppliants. Prometheus Bound*, trans. Alan H. Sommerstein, Loeb Classical Library (Cambridge MA: Harvard University Press, 2009), 181 [Aesch. *Sept.* 269].

42 Aristophanes, *The Acharnians, the Clouds, the Knights, the Wasps*, trans. B. B. Rogers, Loeb Classical Library (Cambridge MA: Harvard University Press, 1986), 40-1 [Ar. *Clouds* 247]; As quoted in Seaford, *Money and the Early Greek Mind*, 143.

43 "We don't credit the gods" is how the ambiguity of Socrates' line is often preserved in translation. Seaford (2004, 143) notes that Aristophanes' pun also extends

meaning of *nomisma* comes out in numerous other places in Greek culture, including for example in relation to the Cynics, in particular Diogenes of Sinope, who, according to Diogenes Laertius, was said to have received the Delphic maxim "*parakharattein to nomisma*": deface the currency, but also violate the customs.[44] *Nomisma* refers both to custom, rule, and law, as well as coined money. This first meaning of the term as a collective form of affirmation already gestures towards the conception of money as a political institution of acknowledgement that I want to recover and situate in the rest of this chapter.

Political use reflected the etymology of *nomisma.* As von Reden has shown by carefully re-embeddeding ancient exchange and coinage into the broader frame of symbolic "transactional orders" in the ancient polis, ancient monetary exchange had a wide range of symbolic functions beyond economic logic, depending on the context in which it was employed. Most relevant for us, coinage was linked to the political development of the polis and illustrates a broad shift in the construction of authority, away from divine justice and toward a form of political authority that was malleable and exercised on behalf of or by the community. "The recognition of coinage as a recompense," she argues, "meant the acknowledgement of the polis as an institution that

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back to the question of money's alterability. For the coins bore the image of the deity even where their money-value exceeded their metal-value. (Which was the case for most Greek currencies at the time.) The reference to the iron coins of Byzantium provides only an extreme example of the kind.

44 Diogenes Laertius, *Lives of Eminent Philosophers*, trans. R. D. Hicks, Loeb Classical Library (Cambridge MA: Harvard University Press, 1925), Volume II, Books 6-10, 23-83. On the *parakharattein to nomisma* slogan of the cynics see also Michel Foucault, *The Courage of Truth (The Government of Self and Others II). Lectures at the Collège de France, 1983-1984*, trans. Graham Burchell (London: Palgrave Macmillan, 2011), 226-228, 240-241.

controlled justice and prosperity. … The introduction of coinage indicates a shift of authority over social justice from the gods to the polis."[45]

Leslie Kurke has gone even further, describing coinage as a tool for the spread of a specifically egalitarian political ideology. Coinage, Kurke writes,

> represents a tremendous threat to a stable hierarchy of aristocrats and others, in which the aristocrats maintain a monopoly on precious metals and other prestige goods. With the introduction of coinage looms the prospect of indiscriminate distribution, exchange between strangers that subverts the ranked spheres of exchange-goods operative in a gift-exchange culture. … As stamped civic token, coinage challenges the naturalized claim to power of the aristocratic elite.[46]

As Kurke argues, coinage issued by the polis constituted an important political force for the assertion of the city's authority over questions of value.[47] Seaford, too, has connected the rise of coinage to the arrival of new and more abstract forms of reciprocity through which the classical polis institutionalized the giving and receiving of honor and money.[48] More recently, he has linked it to the birth of both pre-Socratic philosophy and Athenian tragedy.[49] The dual historical development of coinage and the ancient polis thus marks a shift in the conception and practice of reciprocity from the Homeric practices of gift exchange and private revenge to monetary interactions conducted in currency and

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45 von Reden, *Exchange in Ancient Greece*, 175.

46 Kurke, *Coins, Bodies, Games, and Gold*, 46-47.

47 J.C. Trevett, "Coinage and democracy in Athens," in *Money and its Uses in the Ancient Greek World*, ed. A. Meadows and K. Shipton (Oxford: Oxford University Press, 2001) has taken up this link between coinage and democracy most explicitly.

48 Richard Seaford, *Reciprocity and Ritual: Homer and Tragedy in the Developing City-state* (Oxford: Oxford University Press, 1994), 191-206.

49 Seaford, *Money and the Early Greek Mind.* As Seaford puts it elsewhere, monetization meant "the metaphysical sublimation of the impersonal, homogenous, abstract, transcendent, seemingly self-sufficient power of money." Richard Seaford, "Reading Money: Leslie Kurke on the Politics of Meaning in Archaic Greece," *Arion* 9, no. 3 (2002), 163.

corrective justice based on the city's laws. As Peacock puts it, "if the polis was to regulate interactions between its citizens in a just manner, it needed a medium through which to effect this regulation. The medium was coinage."[50] Coined money was a prerogative of the polis, and acted as a circulating symbol of political reciprocity that enabled life in a political community based on conventional laws that were beyond divine justice or aristocratic domination.

Let me sharpen this insistence on monetary reciprocity by contrasting it briefly with a more familiar, yet crucially different, form of reciprocity. One of the most intuitive and well-known examples of reciprocity is the practice of gift exchange. Ever since Marcel Mauss's influential essay on the gift, it has thus been tempting to detect in Aristotle's references to reciprocity the remnants of a gift society.[51] But as classical scholarship has well established by now, Athens was not a 'face to face' society. While Maussian gift exchange marked the archaic period depicted by Homer, it had been left long behind in classical Athens.[52] The archaic maxim of "Help your friends! Harm your enemies!" (as Malcolm Schofield has put it) no longer straightforwardly applied in the

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50 Mark Peacock, "The origins of money in Ancient Greece," *Cambridge Journal of Economics* 30 (2006), 637-50, 645.

51 Marcel Mauss, *The Gift. The Form and Reason for Exchange in Archaic Societies* [1924] (London and New York: Routledge, 2002). Grewal, for example, places Aristotle's discussion in this context. See Grewal, *The Invention of the Economy*, 231-233.

52 Seaford, *Reciprocity and Ritual*. See, for example, Homer, *Od.* 1.328, 5.40, 6.159, 23.353, 24.288; *Il.* 2.303, 4.114, 9.755, 14.284, 19.3, 24.230. Mauss himself located gift exchange not in the classical polis but in the primitive past strictly "before the institution of traders and before their main invention, money proper, ... before contracts, before money, minted and inscribed." Mauss, *The Gift*, 5. Mauss's account of gift exchange is thus not a reconstruction of the political reciprocity of the classical polis but – as his original subtitle suggested – of archaic gift exchange.

classical Athenian polis.[53] While the one hundred and forty or so Athenian *demes* often continued to be tightly knit communities, the polis itself was a considerably larger and more complex kind of community that existed first and foremost as a "civic imaginary."[54] Though of course much smaller than most modern states, the polis nonetheless relied on notions of mutuality more abstract than those of the archaic world.

The "ideology of reciprocity," which Paul Millett has described as the cement of classical Athenian society, always retained traces of its archaic origin but in the polis it was reworked into something more abstract that could be "applied on a much larger scale to the citizen body as a whole."[55] In Athens, these developments were specifically associated with the rise of the democratic polis. Pericles, for example, not only extended public payment for offices, such as for jurors, but was said to be "completely beyond gift-giving [*adorotatos*]," a practice deemed too close to archaic loyalties for the new democratic sensibilities of the Athenian polis.[56] Though still crucial among personal friends, gifts lost their political significance as the polis transcended the close-knitted communities of households and *demes*. The rise of the polis implied a "depersonalization and communalization of the gift," one aspect of which was its monetization in the form of

53 Malcolm Schofield, "Political friendship and the ideology of reciprocity," in *Kosmos. Essays in Order, Conflict and Community in Classical Athens*, ed. Paul Cartledge, Paul Millett, and Sitta von Reden (Cambridge: Cambridge University Press, 2002).

54 Cornelius Castoriadis, P. Lévêque, and P. Vidal-Naquet, *Cleisthenes the Athenian* (Atlantic Highlands NJ: Humanity Books, 1996); Mogens Herman Hansen, *The Athenian Democracy in the Age of Demosthenes* (Norman: University of Oklahoma Press, 1999).

55 Paul Millett, *Lending and Borrowing in Ancient Athens* (Cambridge: Cambridge University Press, 1991), 35.

56 Thucydides, *The Peloponnesian War*, trans. Steven Lattimore (Indianapolis: Hackett, 1998), 107 [Thuc. 2.65.8-9]; Aristotle, *The Athenian Constitution*, 80 [*Ath. Pol.* 27.3-4]. As Aristotle remarks, "the magnificent person (*megaloprepēs*) spends not on himself but on public things (*ta koina*)" (NE 1123a4).

coinage.[57] This process of abstraction and politicization is the context in which Aristotle's account of political reciprocity and currency emerged. Once we are aware of the importance of numismatic reciprocity in classical Athens, Aristotle's argument will appear in a clearer light.

1.4 Commensuration and Equality

Aristotle's discussion of political reciprocity always harbored the potential for confusion. The Greek term for reciprocity, *to antipeponthos*, typically connoted the negative reciprocity of retribution.[58] As we saw, however, Aristotle insists that it is not simple retribution he has in mind but proportional reciprocity or, more literally, reciprocity according to analogy (*to antipeponthos kat' analogian*).[59] Whereas archaic reciprocity involved retribution and gift exchange, the reciprocity of the classical polis involved abstractly analogous acts. In this light currency, along with rhetoric and law, emerges as a constitutive element of the just polis. More specifically, according to Aristotle's account, currency enabled three essential political functions. 1) As a medium of civic commensurability, currency fostered and sustained habits of political reciprocity among citizens that were reflected in new forms of impersonal trust. 2) As a measure of political justice, currency was the medium through which distributive and corrective justice were assessed and administered. 3) By embedding commercial life into politics

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57 Seaford, *Reciprocity and Ritual*, 197.

58 Thucydides, *The Peloponnesian War*, 159, 325 [Thuc. 3.61, 6.35].

59 To illustrate his qualification, Aristotle provides the example of a citizen who has been wounded by an official but is nonetheless not entitled to retribution (EN 1132b29-31).

and by providing a monetary dimension to political judgment, currency enabled a range of voluntary activities and helped to cultivate virtues of citizenship.

Reciprocity requires comparison and commensurability (*summetria*) is not a trivial problem for Aristotle. If things and people are by nature different, their differences need to be bridged in order to allow for comparison.[60] This is where analogy enters. The concept of analogy (*analogia*) is mathematical in origin and, most generally, it allows Aristotle to reason that A is to B, as C is to D.[61] Analogy is Aristotle's method of discovering likeness in difference. In his biology, it allows him to conclude that feathers are to a bird, as scales are to a fish.[62] In his *Poetics*, it structures his conceptualization of metaphor as an act of transference. "Metaphor consists in giving the thing a name that belongs to something else."[63] Reasoning by analogy involves finding a higher relation that bridges and mediates difference.

Commensurability is thus the necessary starting point for exchange and reciprocity. "All items for exchange must be comparable in some way." (NE 1133a19)

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60 Aristotle, *Categories* 11a15-16. Aristotle frequently flags the problem of incommensurability throughout his works (EN 1112a23; *Met.* 983a16; *Phys.* 222a5; *De Generatione Animalium* 742b28); see also Robert L. Gallagher, "Incommensurability in Aristotle's Theory of Reciprocal Justice," *British Journal for the History of Philosophy* 20, no. 4 (2012), 672.

61 Aristotle, *Topics* 186a6. Not only analogy is mathematical in origin, but so is reciprocity. One of the few ancient texts that employs *to antipeponthos* not as retribution but as proportional reciprocity is Euclid's *Elements*. Indeed, the English term "reciprocall" appears to have been coined in 1570 by the first translator of Euclid into English, Henry Billingsley, to translate "*antipeponthos*." Nicholas Theocarakis, "Antipeponthos and reciprocity: the concept of equivalent exchange from Aristotle to Turgot," *International Review of Economics* 55, no. 1 (2008), 33.

62 Aristotle, *Historia Animalium*, 486b21.

63 Aristotle, *Poetics* 1457b1-25; *Rhetoric* 1405a, 1410b-1411a. Metaphor describes in this sense itself an act of exchange or transfer as *meta* denotes movement, *pherein* to carry.

"Everything needs to be measured by some one measure, as we said before." (*NE* 1133a27) Aristotle considers two possibilities. "In truth" [*alētheia*], he points out, the measure is use [*chreia*]." (NE 1133a27-29)[64] If you happen to need what I happen to offer and I happen to need what you happen to offer, our respective uses are commensurable. But we can hardly count on this coincidence of uses. More often than not our uses will not be perfectly compatible. What we need is a tool that can achieve commensurability on a higher plane. "Currency [*nomisma*] came along to do exactly this, and in a way it becomes an intermediate, since it measures all things [*panta gar metrei*], and so measures excess and deficiency." (NE 1133a21-23)

As Aristotle explains, "by convention [*kata sunthēkēn*] *nomisma* has come to serve as a pledge [*hupallagma*] for use [*chreia*]. And this is why *nomisma* is called *nomisma*, because it exists not by nature [*phusis*] but by the current law (*nomos*), and it is within our power to alter it and to make it useless." (NE 1133a30) Currency is a conventional stand-in for use that enables reciprocal exchange. It achieves commensurability not "in truth" but "in relation to our uses" and "by stipulation [*hupotheseōs*]." (NE 1133b19-21) It is not a measure by nature but by analogy.
Most obviously, currency renders commensurable the respective "uses" of the object of exchange. But in enabling reciprocal exchange, currency does not only equalize the goods being exchanged, it also renders the relation between the exchanging parties commensurable. The first element of currency's foundational political quality arises in

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64 Rackham translates *alētheia* as "in the strict sense," Irwin as "in reality." I have instead preferred the more literal "in truth." I translate *chreia* as "use" to reflect that it is not a quality of the parties of exchange but describes the relation between thing and person. See Gallagher, "Incommensurability in Aristotle's Theory of Reciprocal Justice," 673.

this sense from its role as a medium of civic commensurability. To be sure, commentators have long disagreed over whether Aristotelian reciprocal exchange equalizes only the goods involved or also the parties of exchange and, relatedly, whether Aristotle suggests that the relative standing of the parties of exchange is somehow reflected in the terms of exchange.[65] While Meikle insists that those who exchange are equal from the outset and thus do not need to be equalized, it is possible to account for the commensuration involved in monetary exchange in another way: by locating Aristotelian reciprocal exchange in his account of political justice and by emphasizing the role of analogy.[66]

In the *Nicomachean Ethics*, the discussion of monetary reciprocity immediately leads into that of political justice. Political justice, Aristotle explains, "belongs to those who share in common a life aimed at self-sufficiency, who are free [*eleutherōn*] and equal [*isōn*] either proportionately [*kat' analogian*] or arithmetically [*kat' arithmon*]." (NE 1134a26-28) While household justice is based on hierarchy, political justice rests on an attempt to reconcile difference with a certain kind of civic equality and shared mutuality. (NE 1134b10-15) As Allen suggests, political justice is thus itself an example of comparing incommensurables and discovering similitude in difference.[67] "The just [*to dikaion*]," Aristotle tells us, "is some kind of analogy [*analogon*]." (NE 1131a29-30)

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65 On this debate, see Meikle, *Aristotle's Economic Thought*, 135-146. Gauthier and Jolif, *L'éthique à Nicomaque*; as well as Grewal, *The Invention of the Economy*.

66 When I refer to political justice in this chapter, I have in mind the Aristotelian rendering of "what is just" (*to dikaion*), as established, for example, in the practices of the Athenian popular courts. For the distinction between political justice (*tō dikaiōn*) and the character trait of righteousness (*dikaiosynē*), see Daniela Cammack, "Plato and Athenian Justice," *History of Political Thought* 36, no. 4 (2015).

67 Danielle Allen, *The World of Prometheus. The Politics of Punishing in Democratic Athens* (Princeton: Princeton University Press, 2000), 286.

Aristotle's tendency to make seemingly contradictory references to the simultaneous equality and inequality in political relations – what Vlastos calls his "acrobatic linguistic posture" – has often frustrated commentators.[68] The brief discussion of reciprocal equality (*to ison to antipeponthos*) in the *Politics* (Pol. 1261a30-32), for example, is sometimes contrasted with his discussion in the *Ethics*, where, as we saw, reciprocity is to be understood "based on analogy not equality [*kat' analogian mē kat' isotēta*]." (NE 1132b34) Accordingly, some translators have even dismissed the addition of "*to ison*" in the *Politics* as an interpolation.[69] Yet if "to ison" is understood not simply as arithmetic equality but as fair equality – as Allen, Irwin, and Lord propose – then the puzzle disappears.[70] It becomes clear that political justice aims for fairness, understood as equality according to worth (*axia*).

The fair equality of "giving what is due" according to worth varies in this sense between different people in different constitutions.

> This is also clear from considering the principle to each according to his worth [*ek tou kat axian*]. For all agree that the just in distributions must accord with some sort of worth [*axia*], but what they call worth is not the same: supporters of democracy say it is free citizenship [*eleutherian*], some supporters of oligarchy say it is wealth [*plouton*] others good birth, while supporters of aristocracy say it is virtue. (NE 1131a24-29)

This framing allows Aristotle to accommodate a wide range of beliefs about the inherent worth and equality of persons. Everyone can agree that justice consists in having too

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68 Gregory Vlastos, "Justice and Equality," in *Theories of Right*, ed. Jeremy Waldron (Oxford: Oxford University Press, 1984), 42.

69 See W.D. Ross's translation and commentary of the *Politics*, William David Ross, *Aristotle's Politica* (Oxford: Clarendon Press, 1957).

70 Allen, *Talking to Strangers*; Aristotle, *Nicomachean Ethics*; Aristotle, *Aristotle's Politics. Second Edition*, trans. Carnes Lord (Chicago: University of Chicago Press, 2013).

much or too little. But what will count as excess and deficiency will depend on the conception of worth (*axia*) we begin with. The concept of worth stays constant even as its meaning varies with different regimes and the particular ideologies of worth they entail.

Once we conceive of political justice as aiming to achieve or preserve a status of fair equality, it becomes clear why Aristotle repeatedly describes justice as both a form of analogy and a kind of mean or intermediate. "Doing justice," he writes, "is intermediate between doing injustice and suffering injustice, since doing injustice is having too much and suffering injustice is having too little." (NE 1133b30-34) Aristotle evidently conceives of political justice as a state of balance. As he puts it, "the just [*to dikaion*] is equality [*ison*], as seems true to everyone even without argument. And since equality [*to ison*] is a mean [*meson*], the just [*to dikaion*] is some sort of mean [*meson*]." (NE 1131a13-14) But to find that mean, excesses and insufficiencies must be measured. To find likeness in difference and to compare like to unlike, political justice requires elaborate tools of analogy and reciprocity in the forms of law, speech, and finally currency. It is this ability of rendering differences commensurate and measuring excess and deficiency that places currency at the heart of Aristotelian political justice

Political justice does not reflect universal rules but varies between different polities, as do systems of measurement. "The sort of things that are just [*tōn dikaiōn*] by convention [*sunthēkēn*] and expediency [*sumpheron*] are like measures [*metrois*]. For measures for wine and for corn are not of equal size everywhere. ... Similarly, the things that are just by human [enactment] and not by nature differ from place to place, since political systems [*politeiai*] also differ." (NE 1135a1-6) The metaphor of measurement is doubly apt. For conventional justice not only varies like a measure but requires measurement and equalization to achieve equality according to worth. Aristotle conceives of currency as a mean and measure of justice in precisely in this sense.[71] "In a way *nomisma* becomes an intermediate, since it measures everything, and so measures excess and deficiency." (NE 1133a22-23) Insofar as *nomisma* corrects for excess and deficiency, it becomes the currency of justice.[72] As we saw, currency equalizes by giving each party what is due. In doing so, it not only builds relations of civic commensurability and reciprocity among citizens, but also acts as a tool of analogy and measurement in pursuit of fair equality in distributive and corrective justice. This is currency's second political function.

To point out that currency is a tool of fair equality does not deny that the parties of exchange can vary in terms of their respective worth or that the terms of exchange can reflect these differences in worth.[73] Aristotle is explicit in insisting that "what counts as equal for the people involved will be the same as for the things involved, since the relation between the people will be the same as the relation between the things involved." (NE 1131a21) As Gallagher argues with reference to Aristotle's discussion of friendship

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71 Tellingly, the examples Aristotle provides for conventional political justice all involve quantities, fines, and prices: "…that a mina is the price of a ransom, or that a goat rather than two sheep should be sacrificed." (NE 1134b19-20)

72 Édouard Will spelled out *nomisma*'s role as a medium of distributive justice in this sense. Édouard Will, "De L'Aspect Éthique des Origines Grecques de la Monnaie," 212, no. 2 (1954). In many ways, I am here extending some of the main points of his account.

73 This was how Polanyi recommended reading the passage by stressing the importance of the relative worth or status of the parties of exchange. Karl Polanyi, "Aristotle Discovers the Economy," in *Trade and Market in the Early Empires*, ed. Karl Polanyi, Conrad M. Arensberg, and and Harry W. Pearson (Glencoe IL: The Free Press, 1957), 88. Both Danzig and Grewal similarly flag the importance of differential social status. See Danzig, "The Political Character of Aristotelian Reciprocity," and Grewal, *The Invention of the Economy*.

among unequals in the *Eudemian Ethics*, the fair equality of exchange between unequals appears to rest on the compensation of monetary loss by honor.[74] The superior party will receive less or give more in monetary terms to reflect her greater worth (*axia*) but that loss will be made up by increased honor. As Aristotle explains in the *Eudemian Ethics*, if the monetary contribution is unequal, the exchange will seem skewed in favor of the inferior party. "Therefore, the friendship must be equalized [*anisasai*] and analogy [*analogon*] secured by some other means; and this means is honor, which belongs by nature to a ruler and god in relation to a subject. But the profit [*kerdos*] [of the lesser party] must be made equal [*isasthēnai*] to the honor."[75] Monetary reciprocity achieves fair equality among exchanging parties when it reflects their relative worth. In the case of two unequal parties, fair equality demands that the inferior party is compensated in monetary terms while the superior party receives honor.

Yet there is a special case in which Meikle's insistence on the initial equality of the parties and terms of exchange holds. Although reciprocity is usually based on proportionate equality, which can encompass differences in the relative worth of the exchanging parties, it can slide into arithmetic equality if the parties involved are worth the same, as is the case in a democratic regime defined as free and equal birth for all citizens. To express the same point in terms of Aristotle's example of the physician and farmer, let A be a physician, B a farmer, A' the service offered by the physician, and B'

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74 Gallagher, "Incommensurability in Aristotle's Theory of Reciprocal Justice," 667-701.

75 Aristotle, *Eudemian Ethics* 1242b18-21; Aristotle describes this reciprocal equalization here as a "diagonal conjunction" (*Eudemian Ethics* 1242b15), the exact expression he uses in the *Nicomachean Ethics* to describe the relation between farmer and physician. See Gallagher, "Incommensurability in Aristotle's Theory of Reciprocal Justice," 690.

the produce of the farmer. The relation between A and B is given by their relative worth. The general formula for proportional reciprocal equality is then A/B :: A'/B'. If A and B are citizens of a democratic polis we encounter the special case of A=B and hence A'/B' = 1. Though Aristotle provides a general account of reciprocal exchange and citizenship, in the special case of democracy the relative standing of the parties of exchange no longer affects the terms of exchange.[76]

Danielle Allen has persuasively drawn attention to the political centrality of Aristotelian analogy by illustrating how the metaphorical use of speech can generate civic trust. But her argument may also be extended to currency. As we saw, both metaphorical speech and currency are defined by Aristotle as tools of analogy that can bridge difference. In the context of the polis, the management of difference meant the construction of civic relations of trust and reciprocity between citizens who encountered each other as strangers despite sharing in the same constitution. Speech and currency were the glue that brought citizens into contact with each other, allowed for their recognition of shared interests, and sustained the civic bond – most obviously in the *agora*, the public gathering space for the commercial exchange of goods and the democratic exchange of words. Exchanges between citizens solidified their trust that their relation was one of civic equality, not domination. The trust fostered by monetary reciprocity was, moreover, no longer personal trust in the other party of exchange but an impersonal trust in the just workings of the polis. Civic trust as sustained by networks of monetary exchange relied on the fair administration of political justice that made sure

76 Aristotle himself holds elements of both the aristocratic and the democratic positions. Even though he ultimately suggests in the *Politics* that *axia* ought to be understood as a particular set of virtues, his frame of analysis often betrays the influence of democratic politics.

that citizens did not exploit each other. The political justice facilitated by currency thus made possible forms of citizenship based on impersonal trust among citizens.

The third way in which currency enables political reciprocity is by actively fostering habits and virtues relevant to citizenship. Reining in unmoderated desires (*pleonexia*) is primarily a question of a well-habituated virtuous character and disposition. But in Aristotle's account, the purpose of the polis is to enable a virtuous life based on proper habituation. Virtuous habits require a political frame. As we saw, the very possibility of such a political frame relies on currency, just as, more specifically, numerous reciprocal activities are directly linked to currency. This was true first of all for the various forms of exchange involving currency, ranging from the encounter of citizens in the agora satisfying their material needs to the honorific award of coins for outstanding achievements, to the monetary compensation for participation in rule. But it also found expression in a number of other voluntary activities associated with the polis. Frank highlights some of the possibilities, such as filling public offices and fulfilling public services that involved judgment and deliberation.[77]

We can take Frank's argument even further and draw a link between these activities and currency: not only are most prohairetic activities only possible in a political community but several of the activities Frank highlights relate directly to the use and administration of the city's currency. Decisions in law courts often contained an important monetary dimension that required judgment. The offices of market care and the inspection of transactions are highlighted by Aristotle as "first among the necessary

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77 Frank, *Democracy of Distinction*, 92.

offices."[78] The inspection of contracts not only ensured fair exchange but also countered the temptation to equate material wealth with true wealth.[79] It reminded citizens of the actual purpose of exchange: "to satisfy each other's necessary needs [*chreian*]" and "to achieve self-sufficiency, which is thought to be what leads people to join together in one constitution." (Pol. 1321b15-17) When the Athenian visitor in Plato's *Laws* emphasizes the political importance of market stewards, he points to the political interdependence of currency (*nomisma*) and regulations (*nomima*) by playing on their shared linguistic origin.[80] The city's currency and its laws here once more mirror and complement each other in their service to political justice. Civic virtue involves judging appropriateness and finding the right balance between excess and insufficiency, between deference and domination. In acting as a measure and mean, currency helps in finding this balance and habituates us to it.

Money coined by the polis asserted the authority of the community over questions of value and politicized commercial exchange and the accumulation of wealth by inserting the polis into bilateral transactions. Whereas the riches (*ploutos*) of wealth-accumulation (*chrēmatistikēs*) are limitless (*apeiron*), Aristotle explains that currency (*nomisma*) is not only the unit of exchange but also "its limiting factor [*peras*]."[81] Currency constituted in this sense an attempt to politicize transactions by conducting them in the conventional token of the political community. What was new about coinage, was that it was a political attempt to control some of the effects of trade and wealth.

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78 Pol. 1321b13; see also Aristotle, *The Athenian Constitution*, 138 [*Ath. Pol.* 51.1].

79 This takes us back to Pol. 1257b7 where Aristotle warns against the confused equation of wealth (*chrēmata*) with currency (*nomisma*) and need (*chreia*).

80 Plato, *Laws*, 916d-918a.

81 Pol. 1257b24; see also Seaford, *Money and the Early Greek Mind*, 279.

Coinage bore the stamp of the polis and reminded citizens of their civic ties, rewarded their participation in public offices, distributed wealth and honor, sanctioned wrongdoings through monetary fines, and fostered relations of civic trust.

1.5 Monetary Justice in the Ancient Greek World

As I have argued, Aristotle's account of political justice depends on relations of monetary reciprocity between citizens that render currency an essential political institution of the ancient polis. In Athens, this was true not just metaphorically but in a lived political sense. Currency was intimately tied to practices of citizenship and the assessment and implementation of political justice. In the case of distributive justice, the assessment of excess and deficiency was dependent on a politicized measure in the form of coinage that made wealth visible and quantifiable on terms set by the political community itself. The redistribution of wealth from the rich to the poor was mediated by currency and occurred through the financing of public goods, communal services, and festivities intended to display and inspire public-spiritedness. These contributions to collectively provided feasts in Athens, such as the one alluded to in the *Politics* (Pol. 1281a40-b10), were typically not donated dishes but rather money.[82] And Athens was famously said to have had more communally-financed public holidays than any other

[82] Daniela Cammack, "Aristotle on the Virtue of the Multitude," *Political Theory* 41, no. 2 (2013), 175-202; Daniela Cammack, *Rethinking Athenian Democracy*, Ph.D.diss. Harvard University (Cambridge MA, 2013), 183. Ober, by contrast, maintains that Athenian collective meals resembled a potluck. See Josiah Ober, "Democracy's Wisdom: An Aristotelian Middle Way for Collective Judgment," *American Political Science Review* 107, no. 1 (February 2013), here: 111n16.

polis of the Greek world.[83] The liturgical taxes for public festivals and the fleet were furthermore often of a considerable size, easily reaching several thousand drachmas and came in addition to a property tax (*eisphora*) levied on citizens above a certain level of property.[84] The use of currency not only redistributed wealth but also institutionalized and affirmed practices of reciprocity mediated by the polis. The result was a culture of interlocking monetary reciprocity and generosity.[85]

If there existed a link between money and distributive justice, the same was true for corrective justice. The ability of citizen courts to deal out justice depended crucially on commensurability and currency. The way the Athenians used *nomisma*, von Reden has summarized, "was strictly parallel to the way they used the laws."[86] Along with the institutional changes of positive reciprocity described above, the paradigm of how to relate to enemies was also complicated and politicized in the transition from the archaic to the classical Greek world. In classical Athens, punishment of wrongdoing had been removed from kinship structures and was instead placed into political institutions of justice. As the medium of corrective justice, currency had an important role to play in this process, as can be seen most explicitly in the denomination of legal fines in monetary terms, an innovation the Athenians closely associated with Solon since the Solonian law

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83 Paul Cartledge, "Introduction," in *Kosmos. Essays in Order, Conflict and Community in Classical Athens*, ed. Paul Cartledge, Paul Millett, and Sitta von Reden (Cambridge: Cambridge University Press, 2002), 8.

84 Hansen, *The Athenian Democracy in the Age of Demosthenes*, 100, 111.

85 Aristotle's reference to the Temple of the Graces in this section (NE 1133a2-5), further highlights this context of generosity and reciprocity by tieing it to practices of sacrificial offering.

86 von Reden, *Exchange in Ancient Greece*, 128.

code specified for the first time monetary fines and compensation for torts.[87] The importance and novelty of fines, derives thus precisely not from "blood money" but instead from the centrality of monetary reciprocity to Athenian political practice.[88] This link between punishment and monetary fines is still retained in our language today. Ever since Hesiod coined the expression, we are said to "pay" for our misdeeds.[89]

The close link between currency and political development was in Athens furthermore prominently on display in the gradual introduction of monetary payments for public service in the assembly and the jury courts. Jury service was by metonymy often referred to as "the triobol," after the three obols awarded for it.[90] Reward in coinage for participation in the shared practice of ruling formed a crucial part of the shift from aristocratic to democratic values. As the *Athenian Constitution* describes it,

> [in the fourth century BCE] even the jurisdiction of the Council passed into the hands of the people at large. ... At first they refused to allow payment for attendance at the Assembly; but the result was that people did not attend. Consequently, after the Prytanes had tried many devices in vain in order to induce the populace to come and ratify the votes, Agyrrhius, in the first instance, made a provision of one obol a day, which Heracleides of Clazomenae, nicknamed 'the king', increased to two obols, and Agyrrhius again to three.[91]

Pay for jury members had already been introduced several decades earlier and was specifically associated with Pericles who was said to have pioneered pay for public

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87 On the recurring centrality of monetary fines, see Aristotle, *The Athenian Constitution*, 18, 20, 30, 92, 126, 146, 156, 170 [*Ath. Pol.* 3.6, 4.3, 8.4, 30.6, 45.1, 54.2, 56.7, 63.3].

88 Allen, *World of Prometheus*, 224-225.

89 Hesiod, *Theogony, Works and Days, Shield*, trans. A. N. Athanassakis (Baltimore: Johns Hopkins University Press, 1983), 71 [Hes. *WD* 261].

90 Aristophanes, *The Acharnians, the Clouds, the Knights, the Wasps*, 262-263 [Ar. *Knights* 255]; as quoted in Trevett, "Coinage and democracy in Athens," 25.

91 Aristotle, *The Athenian Constitution*, 116 [*Ath. Pol.* 41.3].

services.[92] Among the institutions listed in the *Politics* as distinctly democratic in character, Aristotle mentions "having pay provided, preferably for everyone, for the assembly, courts, and public offices, or failing that, for service in the offices, courts, council, and assemblies that are in authority."[93] This meant that the lower classes of citizens could afford to attend the courts and the assembly since the compensation was generous enough to more than compensate for a day's labor lost.

The value of compensation was furthermore amplified symbolically by mirroring the civic honor associated with public service. Olympic victors, poets, and actors all received generous monetary awards in recognition of their achievements.[94] Payment for jury duty was frequently compared to the award of medals, emphasizing the element of civic honor included in and nonetheless always in excess of the monetary reward itself. In an age before print, circulating coins were symbols of the political administration of justice that inscribed the polis into social memory. If Benedict Anderson linked the rise of modern imagined communities to technologies of print and reproduction, we can see in ancient coins a medium for the construction of the social and symbolic imaginary that was the polis.[95] Whether it was the exchange of goods, the contribution of public funds in exchange for honor, or the reciprocal sharing of political rule, all were conceived as acts of reciprocal exchange made possible by currency.

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92 von Reden, *Exchange in Ancient Greece*, 110.

93 Pol. 1317b33-35; see also NE 1134b8.

94 Plutarch, "The Life of Solon," in *Plutarch's Lives, Volume 1, Theseus and Romulus. Lycurgus and Numa. Solon and Publicola*, Loeb Classical Library (Cambridge MA: Harvard University Press, 1914), 466 [Plut. *Solon* 23.3].

95 Benedict Anderson, *Imagined Communities. Reflections on the Origin and Spread of Nationalism* (London and New York: Verso, 1983).

Both institutionally and conceptually, justice was tied in the polis to numismatic reciprocity. The examples Aristotle offers for practices of political justice in the *Nicomachean Ethics* all revolve around two aspects: law and currency. This initially puzzling combination becomes perfectly intelligible once we are aware of the underlying conceptual frame of justice as expressed through *nomos* and *nomisma.* Aristotle does not refer here to law or money abstractly but to the conventional law of the polis and its currency. Not accidentally, *nomisma* and *nomos* arise from the same concept of conventionality. As von Reden has put it, the way the Athenians used *nomisma* "was strictly parallel to the way they used the laws."[96] *Nomos* and *nomisma* were no longer immutably given by the gods but instead formed the subject of constant public debate in the assembly, the theater, and the agora. The project of *nomisma* has in this sense distinctly juridical and rhetorical aspects and forms part of the very discourse of the polis as a self-governing political community.

1.6 The Other Side of the Coin

So far, my argument has emphasized a neglected monetary dimension of Aristotle's account of political justice and civic reciprocity. This political dimension of currency is easily obscured if reciprocity is rendered too narrowly as retribution or if Aristotle's critique of unnatural wealth accumulation is interpreted too broadly as involving all forms of monetary exchange. All too often the worry about unnatural wealth accumulation has been simply equated with money. But Aristotle's critique of unnatural wealth-accumulation (*chrēmatistikē*) is consistently structured around an investigation of

96 von Reden, *Exchange in Ancient Greece*, 128.

chrēmata, material wealth in general, just as his critique of the corrupting love for external goods is couched in terms of the love of wealth (*philochrēmatia*). (Pol. 1271a17)

This conceptual distinction between currency and wealth can be traced through a number of ancient texts. When the Athenian visitor in Plato's *Laws*, for example, voices his worry about accumulation many translators speak of money when Plato's term is in fact *chrēmata*. "Wealth [*chrēmatōn*]," the visitor says, is "the object of most men's strongest and most frequent longing. Because of the innate depravity of men and their misdirected education, wealth [*chrēmatōn*] has the power to produce in them a million cravings that are impossible to satisfy – all centering on the endless acquisition of wealth."[97] In his poems Solon worried about the excessive desires and inequalities of wealth that undermined the polis and left citizens as slaves.[98] "In our city," Solon lamented, "people swayed by wealth [*khrēmata*] wish to ruin this great city by their folly. But the mind of the leaders of the community is without justice [*dike*]. What awaits them is the suffering of many pains because of a great outrage [*hubris*]. For they do not know how to check insatiability [*koros*]."[99]

What is striking about these and other instances is that even though conventional translations of the above passages invariably speak of money, the underlying Greek term is almost always *chrēmata*, not *nomisma*. This is not to deny the worry but to

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97 Plato, *Laws* 870a. Saunders, for example, translates *khrēmatōn* as money. Plato, *Complete Works* (Indianapolis: Hackett, 1997), 1528. Schofield, by contrast, here translates *khrēmatōn* as "money." Malcolm Schofield, *Plato. Political Philosophy* (Oxford: Oxford University Press, 2006), 259.

98 Solon, "Fragment 4," in *Greek Elegy and Iambus*, Loeb Classical Library (Cambridge MA: Harvard University Press, 1982), 118-121; Seaford, *Money and the Early Greek Mind*, 206; von Reden, *Exchange in Ancient Greece*, 182.

99 Solon, "Fragment 4," 118.

conceptually decouple it, to some extent, from currency. Currency (*nomisma*), to be sure, is a form of wealth (*chrēmata*). Coins have after all also material value. Not only were most ancient Greek coins made of precious metal, but even where they traded at a conventional value based on their stamp, convention rendered them precious and endowed them with economic value. In as far as currency (*nomisma*) is a form of money, and money a form of material wealth (*chrēmata*), currency is thus itself a form of wealth and a tool of acquisitiveness. But after the spread of coinage – after *nomisma* had become common currency both literally and metaphorically – *chrēmata* denoted first and foremost material wealth in general, including non-monetary wealth and other material possessions.[100] If Aristotle had wanted to single out the corrupting effect of money specifically and not material wealth in general we would expect him to refer to *nomisma*, the one term that unmistakably referred to money.

Some commentators have nonetheless wondered, not unreasonably, whether money somehow worsened the corrupting effect of wealth accumulation, somehow undermined the natural terms of exchange, and gradually distorted even otherwise well-habituated characters.[101] On this reading, money encourages a neglect of use in favor of wealth-accumulation and in doing so distorts our ability to distinguish between proper and improper use. This is an undeniable and not at all implausible possibility.

But Aristotle never blames currency for the corruption associated with wealth-accumulation. In dealing with the perils of how unnatural wealth accumulation divorces exchange from actual use – including in the passage invoked by Jill Frank – Aristotle

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100 *Chrēmata* furthermore denotes the very materiality of wealth – as opposed to wealth in the abstract (*ploutos*).

101 Frank, *Democracy of Distinction*, 90.

never speaks of currency (*nomisma*) but provides a rather different reasoning for the preponderance of improper use.

> The reason they are so disposed [*diatheseōs*], however, is that they are preoccupied with living, not with living well. … And even those who do aim at living well seek what promotes physical gratification. So, since this too seems to depend on having property, they spend all their time acquiring material wealth [*chrēmatismos*]. And the second kind of wealth acquisition [*chrēmatistikē*] arose because of this. (Pol. 1258a11-14)

Unnatural wealth accumulation originates in a certain disposition (*diathesis*) that is characterized by an excessive enchantment with material wealth and a tendency to chase the fleeting promises of limitless physical gratification instead of pursuing the good life. It is tempting to see this disposition as introduced by the invention of money. But the Greeks rarely, if at all, expressed the worry of commercial corruption in terms of a historical story pivoting around the invention of money.[102] Instead, they framed it in terms of the consequences of a badly habituated disposition and the moral failure of pursuing the wrong kind of life. The abstraction of money might deepen certain corrupted habits of acquisitiveness but a Lockean narrative of the fall through the invention of money sits uneasily with ancient accounts stressing the frailty of human choices.[103]

Crucially, Aristotle never blamed currency for the corruption associated with wealth-accumulation. What matters instead for him is the use to which currency is put:

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[102] Pol. 1257b1-2 comes closest to such a narrative in Aristotle. But the use of *nomisma* here (as well as in NE 1133b28) constitutes an anachronism, perhaps simply resulting from the lack of a Greek term for pre-coinage money.

[103] Even the Biblical root of all evil is not money itself but "the *love* of money" (*philarguria*) or even more literally "the love of silver" (I Timothy 6:10).[103] We may covet money but the root of covetousness is not money itself but the pursuit of money as an end in itself. The King James Bible translates *philarguria* (rendered *cupiditas* in Latin) as "the love of money." See also Alan Ryan, *On Politics. A History of Political Thought* (New York and London: W.W. Norton and Company, 2012), vol. 1, 209.

does it enable the procurement of goods necessary for the good life and sustain relations of reciprocity in the city or does it serve the accumulation of wealth for its own sake and the corruption of the city? Currency does not map onto the distinction between natural household management (*oikonomikē*) and unnatural wealth-accumulation (*chrēmatistikē*) but partakes in both. Monetary exchange conducted for the right purpose fulfills a crucial role in the political community. It is possible, according to Aristotle, to lead a life with currency that is nonetheless not dictated by wealth-accumulation. Instead, as already Solon had indicated, the problem of excess lies with people's distorted faculties and characters, specifically their unmoderated desires (*pleonexia*).[104] The problem of excessive accumulation was not introduced by coinage but preceded it.

To imagine a currency completely devoid of its function as a store of value is, of course, theoretically possible but it would render coins into pure tokens of need. This thought points us back to Aristotle's original description of currency as a substitute for use, not wealth. As Aristotle concluded in his discussion of currency in the *Politics*: "It is absurd for something to be wealth if someone who has lots of it will die of starvation, like Midas in the fable, when everything set before him turned to gold in answer to his own greedy prayer. That is why people look for a different kind of wealth and wealth acquisition, and rightly so." (Pol. 1257b15-18) However imperfectly, currency is a political institution that seeks to contribute to this enterprise. Despite being entangled in the confusions of wealth accumulation, currency is intended to abstractly express our

[104] As Socrates claims in Book 4 of the Republic, in any individual the appetitive element is "the largest part of the soul, and by nature quite insatiable where money is concerned." Plato, *Republic*, 442a. See also Schofield, *Plato*, 270; 252-255. As Schofield comments, "Plato pushed the analysis of the desire 'to have more' far beyond any of his predecessors ... in his exploration of its roots in the human psyche." (252)

needs and serve them as a measure of deficiency and excess in the just political community.

The purpose of my argument in this chapter is thus not to extricate currency from acquisitiveness but to render visible its political side that has been largely neglected. Irrespectively of whether we translate *chrēmata* as money or material wealth, paying attention to the underlying Greek terms and preserving the distinction between *chrēmata* and *nomisma* allows us to see that Aristotle complemented his critique of the unnatural acquisitiveness with a positive account of currency as a central political institution.[105] By reducing *nomisma* to material wealth or by rendering both *chrēmata* and *nomisma* anachronistically as "money," the conceptual distinctions between material wealth, pre-political bullion money, and the currency of the polis is rendered invisible.

1.7 Conclusion

It was always easy to forget about the political side of money. Suspicion of monetary abstraction runs deep in political thought. Socrates' first line of defense in the *Apology* was after all not that he had been a good citizen but that he had never charged money for his teachings.[106] In Plato's *Republic* the guardians are emblematically banned from handling money altogether. Instead, they carry in their souls divine gold and silver

105 Even Polanyi – who celebrated Aristotle's critique of unnatural wealth accumulation as "probably the most prophetic pointer ever made in the realm of the social sciences" – equated *chrēmatistikē* with money by translating it as "money exchange." Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, 2nd ed., with a new introduction by Fred Block and a foreword by Joseph E. Stiglitz (Boston: Beacon Press, 2001), 56.

106 Plato, *Apology*, 19e-20c.

that, unlike money, does not pollute their desires. "Many impious deeds," Socrates explains, "have been done for the sake of the currency of the multitude [*pollōn nomisma*], while theirs is untainted."[107] This line of thought in the *Republic* inaugurated a rich utopian tradition contemplating the abolition of money.[108]

Self-consciously following Plato's lead, Thomas More's tale of *Utopia* (1516) culminated in a stunning account of the transformative effect achieved by the abolition of money. According to Raphael Hythloday, More's fictional protagonist, the Utopian abolition of money amounted to nothing less than the end of all "fraud, theft, robbery, quarrels, brawls, altercations, seditions, murders, treasons, and poisonings." The very moment money goes, "so would fear, anxiety, worry, toil, and sleepless nights."[109] Invoking Plato, Hythloday appealed to his interlocutor, and thereby the reader, "wherever you have private property and money is the measure of all things it is hardly ever possible for a commonwealth to be just or prosperous."[110] The tantalizing thought of abolishing money for good runs through the Utopian tradition like a red thread. As Fredric Jameson has remarked, utopia *is* the abolition of money.[111]

As I have argued in this chapter, what this familiar suspicion of money's abstraction and acquisitiveness obscures was that ancient political thought at the same

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107 Plato, *Republic*, 416e-417a, 422d.

108 Malcolm Schofield has described the abolition of money as a core aspect of "the mainstream of all Greek utopian thinking." Malcolm Schofield, *Saving the City. Philosopher-Kings and Other Classical Paradigms* (Abingdon: Routledge, 1999), 58.

109 Thomas More, *Utopia* [1516], ed. George M. Logan and Robert M. Adams, Revised ed., Cambridge Texts in the History of Political Thought (Cambridge: Cambridge University Press, 2002), Book Two, 105.

110 More, *Utopia*, Book One, 37.

111 Fredric Jameson, *Archaeologies of the Future: The Desire Called Utopia and Other Science Fictions* (London: Verso, 2005), 20, 229.

time extensively acknowledged currency as a central political institution. Ever since the introduction of coinage into the classical Greek world money was not only seen as a fraught vehicle of economic abstraction but also as an institution of societal value closely associated with the political community. Once this neglected political side of money as currency comes back into view many familiar accounts of monetary suspicion appear as merely one side of an ambivalent two-sided account of money. Alongside the well-known suspicion toward money, we can often find extensive acknowledgements of the political character of currency. Note, for example, that in the *Republic* only the guardians are deprived of money and metal, while the citizens of Kallipolis are allowed to handle the city's currency.[112] As Plato granted, currency was an essential institution required for co-existence in any city, including Kallipolis. Even the city of utmost necessity – so basic that Glaucon considered it at best fit for pigs – is said by Socrates to already use currency (*nomisma*) as a token for exchange.[113] The first city's feverish path to ruin is thus not linked to the introduction of money but instead the perverted use to which money is put once non-necessary desires took hold.

112 Plato, *Republic*, 416e-417a. "We will tell them that they [the guardians] always have gold and silver [*khrusion kai argurion*] of a divine sort in their souls as a gift from the gods and so have no further need of human gold [*tou anthrōpeiou*]. … For them alone among the city's population, it is unlawful to touch or handle gold or silver [*khrusou kai argurou*]."

113 Plato, *Republic*, 371b. "We will need a market-place [*agora*] then, and currency [*nomisma*] as a token [*sumbolon*] for exchange will be the result of this." On Plato's ambivalence see also Seaford, *Money and the Early Greek Mind*, 250. As Schindler has pointed out perceptively, "When Socrates introduced money in the ideal city, it was precisely as a token, as a 'symbol' of exchange, and thus as something that has its reality in allowing the transition from one real good to another." D. C. Schindler, "Why Socrates Didn't Charge: Plato and the Metaphysics of Money," *Communio 36* 36 (Fall 2009), 402-403.

Few accounts of Aristotelian political justice today address this discussion of currency (*nomisma*). While overly narrow readings of reciprocity have tended to restrict Aristotelian reciprocity to retribution, gift exchange, or commercial exchange, overly broad readings of his critique of wealth accumulation have tended to extend the critique to all forms of monetary exchange. In this chapter, I have instead reconstructed Aristotle's neglected discussion of currency as an essential political institution fulfilling three distinct political functions. First, currency acted as a medium of civic commensurability in the polis that made possible and sustained reciprocal relations of exchange and shared political rule. Second, currency was a measure and mean of political justice understood as the pursuit and maintenance of fair equality by means of conventionality. Third, currency made possible a range of prohairetic virtues of deliberate choice and civic mindedness. The sustenance of a just political community depends on Aristotle's account on currency. The spread of coinage and the political changes that went hand in hand with it form the neglected background to Aristotle's account of reciprocity and exchange in the just polis.

Despite its neglect today, Aristotle's account of currency in the *Ethics* as a nominalist token of exchange in the political community once was vastly influential. It profoundly shaped ancient thought, Roman law, scholastic philosophy, and early-modern practice.[114] Until well into modernity, Aristotle's argument left a trace alongside the more familiar suspicion of money. Consider, for example, Rousseau whose critique of money's moral and civic effect is well known. As Rousseau lamented in his *First Discourse*, "with

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[114] Odd Inge Langholm, *Wealth and Money in the Aristotelian Tradition. A Study in Scholastic Economic Sources* (Bergen: Universitetsforlaget, 1983) and Joel Kaye, *Economy and Nature in the Fourteenth Century. Money, Market Exchange, and the Emergence of Scientific Thought* (Cambridge: Cambridge University Press, 1998).

money, one has everything, except morals and citizens."[115] "Give money," he put it in the *Social Contract*, "and soon you will have chains."[116] But in describing Emile's curriculum, Rousseau also outlined at the same time the political face of money and acknowledged the foundational character of currency as a bond of society in words that directly echoed Aristotle's argument in the *Nicomachean Ethics* and that serve as this chapter's epigraph:

> No society can exist without exchange, no exchange without a common measure and no common measure without equality. Thus all society has as its first law some conventional equality, whether of men or of things. … Conventional equality among things prompted the invention of money, for money is only a term of comparison for the value of things of different kinds, and in this sense money is the true bond of society [*le vrai lien de la société*].[117]

As Rousseau immediately added, this positive side was of course overshadowed by money's adverse moral effects, originating in its potential for abuse and confusion. But according to Rousseau's account in *Emile*, in order to understand money's deleterious effects one first had to grasp its positive function as a bond of society and a token of conventional equality.[118]

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115 Jean-Jacques Rousseau, "Discours sur les sciences et les arts," *Oeuvres complètes*, tome III (Paris, Bibliotheque de la Pleiade: 1964), 20. Jean-Jacques Rousseau, "Discourse on the Sciences and Arts," in *The Discourses and other early political writings*, ed. Victor Gourevitch (Cambridge: Cambridge University Press, 1997), 19.

116 Jean-Jacques Rousseau, "Du contrat social," *Oeuvres complètes*, tome III (Paris, Bibliotheque de la Pleiade: 1964), 429. Jean-Jacques Rousseau, *The Social Contract and Other Later Political Writings*, trans. Victor Gourevitch (Cambridge: Cambridge University Press, 1997), 113.

117 Rousseau, "*Émile*," tome IV, 461; Rousseau, *Emile*, 189.

118 As Rousseau recommended, "Do not go farther than this, and do not enter into an explanation of the moral effects of this institution. With all things it is important that the uses be well presented before the abuses are shown. If you aspire to explain to children how the signs make the things neglected, how all the chimeras of opinion are born from money, how countries rich in money must be poor in everything else, you would be

To recover the political centrality of currency is then not to deny either Aristotle's critique of wealth accumulation or Rousseau's suspicion of money's capacity to corrupt. As a token of wealth, money may act as a catalyst to the confused accumulation of wealth for its own sake. As a political institution, however, currency was an essential tool of reciprocity and trust that related citizens to each other and that sustained the just political community. When both strands are brought together, Aristotle can be seen to have offered a self-consciously ambivalence analysis of the two-sidedness of wealth and currency. Currency was thus also always a partially self-defeating achievement whereby an institution essential to the establishment of political citizenship has the potential to produce itself further excess and injustice.[119]

According to Rousseau, the story set out in this dissertation is thus in an important sense a preparatory one, a story for children. It is only the preliminary complement to the more familiar suspicion against money's ability to corrupt both morality and civic virtues. But as Rousseau pointed out, as a preparatory grounding it was an essential story without which any critique of money was left unmoored and confused. To develop an account of the manifold ways in which money alters human desires and relationships must then not lead us to overlook the ways in which money qua currency forms at the same time a constitutive political institution. Alongside suspicion against money's

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treating these children not only as philosophers but as wise men, and you would be aspiring to make them understand a thing of which even few philosophers have had a good conception." Rousseau, "*Émile*," 462; Rousseau, *Emile*, 189.

119 Such a double bind is not unfamiliar to students of Aristotle. As Patchen Markell has pointed out, Aristotle's account of action in the *Poetics* describes a "peculiar structure of enabling conditions that are always also limitations" and place "human actors in ontological double binds" – "a recursivity, in which a source of possibility also operates as its own limitation." Patchen Markell, *Bound by Recognition* (Princeton: Princeton University Press, 2003), 79-80.

abstraction and acquisitiveness, the history of political thought always acknowledged this politically foundational character of currency as a bond of society and tool of justice.

– Chapter Two –

THE MODERN DEPOLITICIZATION OF MONEY
John Locke and the Great Recoinage of 1696

> Truth, like Gold, is not the less so, for being newly brought out of the Mine. 'Tis Trial and Examination must give it price, and not any antick Fashion; And though it be not yet current by the publick stamp; yet it may, for all that, be as old as Nature, and is certainly not the less genuine.
>
> —John Locke[1]

> Till you writ, we used money as the Indians do their wampompeek.
>
> —William Molyneux to Locke, June 6, 1696[2]

2.1 Introduction

If the Glorious Revolution was the first modern revolution, its immediate aftermath could hardly have been more fitting.[3] Far from ushering in a new age of calm, the post-revolutionary state found itself in a near permanent crisis of the kind that has since become one of the characteristic hallmarks of modernity. For much of the 1690s England was engaged in an intense war against France that stretched from the Rhineland

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1 John Locke, *An Essay Concerning Human Understanding [1689]* (Oxford: Clarendon Press, 1975), Epistle Dedicatory, 4.

2 William Molyneux to Locke, 6 June 1696. John Locke, *The Correspondence of John Locke*, ed. E. S. De Beer, 8 vols. (Oxford: Clarendon Press, 1979-1989), vol. V, Letter no. 2100, 653.

3 For the argument of 1688 as the first modern revolution, see Steven Pincus, *1688. The First Modern Revolution* (New Haven: Yale University Press, 2009).

to the Hudson Bay. At home, loyalty to the new King could meanwhile not be taken for granted. Rumors of rebellion were a constant fare.

A deeply entrenched monetary crisis mirrored the fragility of the political situation. The amount and quality of circulating silver coins had been deteriorating for years but by the mid-1690s the shortage of silver reached unprecedented levels. By 1695, coins in circulation lacked more than half of their original silver content due to coin clipping.[4] The whole monetary system threatened to come to a grinding halt, cutting off the military and bringing down the new government with it.[5] "The business of our money," so John Locke (1632-1704), "was every body's talk, every body's uneasiness."[6] Irrespectively of whether blame fell on scoundrelous clippers, conspiratorial counterfeiters, or indeed the government itself paying for its troops abroad, all could agree that the currency had suffered such severe damage that the fate of the country itself was at stake.[7]

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4 Ludovic Desmedt, "Les fondements monétaires de la 'révolution financière' anglaise: le tournant de 1696," in *La monnaie dévoilée par ses crises*, ed. Bruno Théret (Paris: EHESS, 2007), 325. Kepa Ormazabal, "Lowndes and Locke on the Value of Money," *History of Political Economy* 44, no. 1 (2012), 157-80, 158. Patrick Hyde Kelly, "General Introduction," in *Locke on Money*, ed. Patrick Hyde Kelly, The Clarendon Edition of the Works of John Locke (Oxford: Clarendon Press, 1991), 116.

5 Pincus, *1688*, 438, 608n3.

6 John Locke to William Molyneux, 30 March, 1696. Locke, *Correspondence*, vol. V, Letter no. 2059, 594. Pincus (*1688*, 438) also cites the letter but attributes it to Molyneux.

7 For the historiography of the Coinage Crisis see Albert Feavearyear, *The Pound Sterling. A History of English Money* (Oxford: Oxford University Press, 1931). Peter Laslett, "John Locke, the Great Recoinage and the Board of Trade," *The William and Mary Quarterly, Third Series* 14, no. 3 (July 1957), 370-402. J. Keith Horsefield, *British monetary experiments, 1650-1710* (Cambridge MA: Harvard University Press, 1960). Ming-Hsun Li, *The Great Recoinage of 1696 to 1699* (London: Weidenfeld & Nicholson, 1963). P. G. M. Dickson, *The Financial Revolution in England: a study in the development of public credit, 1688-1756* (London: Macmillan, 1967). See also Mara

The man on whom the fate of the nation would come to depend – at least in his own estimation – was Locke himself. Notoriously anxious to guard his authorial anonymity, during his lifetime Locke only published two texts in his name.[8] The first was his famed *Essay Concerning Human Understanding* published in 1689.[9] The second owed its existence to the altogether more unforeseen and politically charged circumstances of the Coinage Crisis. At the height of the crisis, in December 1695, Locke published a pamphlet calling for a full recoinage at the old value, hoping to sway public opinion and the concurrent deliberations in parliament.

Already a year earlier, in January 1695, when the House of Commons had appointed a committee to consider the matter of coinage, Locke had sought to influence the debate by anonymously publishing a brief pamphlet.[10] In the course of 1695 matters deteriorated substantially. As the Lords Justices began to seek expert advice, Locke, alongside Isaac Newton, Christopher Wren, and Charles Davenant, was asked to submit his proposal.[11] The debate dragged on for several more months but when it transpired in

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Caden's forthcoming work on recoinage and its effects for Britain and its empire in the early eighteenth century. Mara Caden, *The Money Industry: Mints, Manufactures, and the Geography of Currency in Britain and its Empire, 1690-1750* (Ph.D. Dissertation, Yale University).

[8] Neither the *Letter Concerning Toleration*, nor the *Two Treatises of Government* (both 1689) acknowledged Locke's pen. Even though his authorship in these and other cases was an increasingly open secret among his Whig acquaintances, Locke refused to reveal his authorial identity.

[9] John Locke, *An Essay Concerning Humane Understanding, in four books* (London: T. Basset, 1690 [1689]).

[10] John Freke and Edward Clarke to Locke, 28 February 1695. Locke, *Correspondence*, vol. V, Letter no. 1853, 278. Locke [anon.], *Short Observations on a Printed Paper* (London: Printed for A. and J. Churchill, 1695).

[11] John Locke, "Propositions sent to the Lord Justices," in *Locke on Money*, ed. Patrick Hyde Kelly (Oxford: Oxford University Press, 1991), vol. 2, 374-380. At this point Locke was still moving outside the public eye. He was giving expert advice and

late November 1695 that the government might not heed his advice for full revaluation at the old rate, Locke broke with his self-imposed anonymity in order to throw in his lot and good reputation for the cause. A manuscript – entitled *Further Considerations concerning Raising the Value of Money* – was rushed to the printer in Locke's name and appeared on December 27, 1695, riddled with errata that testified to the great haste under which it was printed.[12] In the end, to the surprise of many, Locke's radical proposal won out against plans for a devaluation. In the summer of 1696 a wholesale recoinage at the old rate was effected, just as Locke had demanded.[13] It was an exercise of enormous scale, the first full revaluation since 1299.

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Despite Locke's towering presence in liberal political thought today, political theorists rarely engage with Locke's monetary writings.[14] But money is a central pivot of

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writing pamphlets – all the while pleading with his correspondents to keep his name out of it. "But, pray, whatever use you make of it, conceal my name." Locke to William Molyneux, 20 November 1695. Locke, *Correspondence*, vol. V, Letter 1966, 464.

12 John Locke, *Further Considerations Concerning Raising the Value of Money. Wherein Mr. Lowndes's Argument for it in his late Report concerning An Essay for the Amendment of the Silver Coins, are particularly Examined* (London: For A. and J. Churchil, 1695). The book was published on December 27, 1695. A second, corrected edition appeared on January 9, 1696. The book was dedicated to Sir John Somers MP. Later in 1696, Locke added the two previous anonymous pamphlets from 1691 and earlier in 1695 and published the volume as *Several papers relating to money, interest and trade, &c. Writ upon several occasions, and published at different times. By John Locke Esq* (London: A. & J. Churchill, 1696).

13 As Mark Goldie has concluded, "the greatest impact exerted by Locke on the everyday lives of his contemporaries arose from his advice during the Coinage Crisis." Mark Goldie, "Coinage and Commerce, 1695-1696," in *John Locke: Selected Correspondence from the Clarendon Edition by E. S. de Beer* (Oxford: Oxford University Press, 2002), 213.

14 Two excellent, and rather distinct, recent exceptions are Douglas John Casson, *Liberating Judgment: Fanatics, Skeptics, and John Locke's Politics of Probability* (Princeton: Princeton University Press, 2011) and Daniel Carey, "John Locke's

Locke's political philosophy. Not only is Locke's prose consciously saturated with monetary metaphors but, as is well known, the introduction of money also drives his account of property and the origin of civil society in the *Second Treatise*. In this chapter I offer a reading of Locke's monetary thought as part of his political philosophy and use his writings on money in turn to reevaluate his political thought.

In the *Second Treatise*, Locke presented the introduction of money as an event of biblical proportions. Money unleashed mankind into an age of unheard-of riches, unequal possessions, and inevitable strife. Despite the overpowering momentum, Locke insisted that the introduction of money occurred by "a tacit and voluntary consent" (ST 50). In allowing men to store the value of their labor in the form of a durable substitute, a shiny piece of otherwise useless metal was declared money. This initial consent to money, according to Locke, justified the material inequalities that followed it. With the elevation of metal to money, men had agreed to disproportionate and unequal possession of the Earth. Most commentators have reacted to this argument with skepticism and dissatisfaction. Even otherwise sympathetic readers have struggled to be persuaded. Jeremy Waldron, for example, has described the passage as "one of the worst arguments in the Second Treatise."[15] One influential strand of commentary has expressed its frustration with the seeming disingenuity of the passage by stressing the manifold ways in which money allowed for the circumvention of the previous natural law constraints

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philosophy of money," in *Money and political economy in the Enlightenment*, ed. Daniel Carey (Oxford: Oxford University Press, 2014), 57-81.

[15] Jeremy Waldron, *God, Locke, and Equality. Christian Foundations in Locke's Political Thought* (Cambridge: Cambridge University Press, 2002), 176. Despite rejecting Locke's consent argument, Waldron falls back on Locke's second claim that the material inequality induced by money had bettered the conditions of *all* members of the population. See ST 41.

that had delimited accumulation before the invention of money.[16] Another strand of scholarship has by contrast sought to shift our attention toward a recognition of the sincerity of Locke's argument, the importance of consent, and the theological nature of his position that found expression in an ongoing presence of natural law constraints.[17] Where the former group of scholars highlights the continuities between Locke's account of property and capitalist accumulation, the revisionist scholarship frames Locke as a moral philosopher of theological natural law.[18]

If Locke's argument about the introduction of money in the *Second Treatise* has divided commentators, its relationship to his writings on the Coinage Crisis poses another, related paradox. As mentioned above, in the *Second Treatise* Locke described the introduction of money as consensual and conventional, arising out of the mutual agreement of mankind (ST 36, 50). But in his recoinage essays Locke insisted that coins' conventional nominal value can never be greater than the unalterable "natural intrinsick value" of their silver content. Locke's monetary writings have consequently, in the words of one scholar, often seemed to "constitute an anomaly, an unaccountable turn to essentialism on the part of a theorist usually thought of as being comfortable with the

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16 Crawford Brough Macpherson, *The Political Theory of Possessive Individualism. Hobbes to Locke* (Oxford: Oxford University Press, 1964). Crawford Brough Macpherson, "Locke on Capitalist Appropriation," *Western Political Quarterly* 4 (1951), 550-66.

17 John Dunn, *The Political Thought of John Locke: An Historical Account of the Argument of the "Two Treatises on Government"* (Cambridge: Cambridge University Press, 1969). James Tully, *A Discourse on Property: John Locke and his Adversaries* (Cambridge: Cambridge University Press, 1980). Waldron, *God, Locke, and Equality.*

18 Some have productively sought to mediate between the two by pointing toward a theological imperative for cultivation and accumulation. See, for example, Onur Ulas Ince, "Enclosing in God's Name, Accumulating for Mankind: Money, Morality, and Accumulation in John Locke's Theory of Property," *The Review of Politics* 73, no. 01 (December 2011), 29-54.

notion that signs have conventional, rather than natural values."[19] Some readers – most famously Peter Laslett, but also John Dunn – have of course long doubted the theoretical coherence of Locke's oeuvre.[20] Without wanting to deny significant shifts in Locke's development, in this chapter I reconstruct a consistent political philosophy of money across Locke's works.

Paying attention to Locke's thinking and advice on money allows us to appreciate and complicate three crucial aspects of his political philosophy. First, Locke's writings on the Coinage Crisis bring to the fore what I take to be his fundamental preoccupation with the notion of trust in politics. Trust, I argue with John Dunn, must be seen as a constant reference point in Locke's work, not only concerning currency but also the vicissitudes of political society as such. Locke's multifarious responses, ranging from the need for religious toleration to the right of rebellion, are tacitly structured by this consistent preoccupation. Trust is, to use an expression cherished by Locke, the very bond of society (*vinculum societatis*).[21] In the context of the monetary woes of the 1690s Locke deduced from this focus on trust a novel need to protect creditors and safeguard monetary pledges.

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19 John O'Brien, "John Locke, Desire, and the Epistemology of Money," *British Journal for the History of Philosophy* 15, no. 4 (2007), 686.

20 Peter Laslett, "Introduction," in *John Locke, Two Treatises on Government*, ed. Peter Laslett (Cambridge: Cambridge University Press, 1960). Dunn, *The Political Thought of John Locke*.

21 See, for example, John Locke, *Essays on the Law of Nature. The Latin Text with a Translation, Introduction and Notes, Together with Transcripts of Locke's Shorthand in his Journal for 1676*, ed. Wolfgang von Leyden (Oxford: Oxford University Press, 1954), 133, SC 213, as well as John Locke, "A Letter Concerning Toleration," in *A Letter Concerning Toleration and Other Writings*, ed. Mark Goldie (Indianapolis: Liberty Fund, 2010), 52-53. I return to these passages below.

Second, underpinning trust in this account is Locke's understanding of language. The significance and simultaneous fragility of coinage is mirrored by Locke's worries about the tenuous nature of language and speech. It is after all only the performative use of language that allows us to make promises and oaths to each other. Invoking Locke's epistemology and philosophy of language, as developed in the *Essay Concerning Human Understanding*, I point out that Locke thought of money on a first level as a complex "mixed mode" – a concept formed from "voluntary Combinations" of definitional ideas that are made "by Men alone."[22] Speech and money were for Locke in this sense intimately analogous. But if the conclusion derived from this analogy is a constitutive instability and proneness to abuse, Locke sought to introduce a disanalogy by tying the idea of money as a "mixed mode" to the empirical concept of a substance in the form of silver or gold.

The third aspect brought into view by my argument is the importance of trade and colonial settlement for Locke. Historically, sovereigns had long supplemented their often meager tax revenue through devaluations and the official clippings of coins. In particular during times of war this was standard practice throughout the Middle Ages and early modern times, as Locke knew only too well. But as Locke was keen to emphasize – and the force of his point was a relatively recent one – devaluations threatened foreign trade, trade with neighboring countries but also, crucially, trade with one's own colonial plantations and settlements. Locke's counsel on coinage was immediately rewarded with his appointment to the Board of Trade, the backbone of British colonial administration, in

22 Locke, *Essay Concerning Human Understanding*, 2.32.12.

the summer of 1696.[23] During the tumultuous first decade after the Glorious Revolution, Locke thus found himself simultaneously engaged in three interrelated political enterprises at the very heart of the post-revolutionary state: the administration of England's colonial trade, the reform of the English currency, and (more ambivalently, as we will see) the establishment of a public credit system.

In the previous chapter, I explored Aristotle's foundational account of currency and defended a reading of *nomisma* as a conventional tool of commensurability and civic reciprocity. Readers of Locke's monetary thought have often detected traces of the Aristotelian account.[24] In this chapter I argue, by contrast, that while Locke still accepted certain premises of Aristotle's analysis he derived a radically different argument and political conclusion from them. Like Aristotle, Locke began from an emphasis on the conventional origins of money. But instead of building on this nominalist foundation an embrace of the malleable political character of currency, Locke attempted to stabilize what he took to be a dangerous nominalist instability by inextricably tying money to an unalterable metal value. Despite its Aristotelian roots, Locke's argument is thus heavily filtered through seventeenth-century natural law debates, in particular an engagement

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23 Laslett, "John Locke, the Great Recoinage and the Board of Trade," 370-402.

24 In his introduction to Locke's monetary writings Patrick Hyde Kelly remarks, without further elaboration, that "there would seem to be a large debt to Aristotle." Kelly, "General Introduction," 98. Making a more specific claim, James Tully has argued that "Locke explains the introduction of money in the traditional, Aristotelian manner." Tully, *A Discourse on Property*, 147. Marx had referenced Locke in the opening pages of *Kapital* – quoting from Locke's *Some Considerations on the Consequences of the Lowering of Interest* (1691) – for having retained an Aristotelian distinction between natural use value and conventional monetary value. Karl Marx, *Capital. Volume One* [1867], trans. Ben Fowkes (London: Penguin, 1976), 126n4; Karl Marx, *Das Kapital*, Marx Engels Gesamtausgabe (MEGA), Zweite Abteilung, Band 6 (Berlin: Dietz Verlag, 1987), 70n4.

with the work of Samuel Pufendorf, as well as the dual frame of political instability and colonial expansion.

Locke's novel argument for the absolute sanctity of the monetary standard constituted a radical break in the political history of money. In describing the monetary covenant as not congruous with the political one but predating it, Locke argued for a depoliticized metallist money of global reach that could ensure the stability of contracts at home and fuel colonial expansion and settlement overseas. Precisely because money was a tool for governing, Locke insisted, no government could meddle with it. Excavating Locke's political philosophy of money along these lines thus reveals a profound irony. While Locke's monetary intervention arose from his political thought, his argument, where successful, erased its own political nature. Precisely because of the enormous intellectual influence that Locke's political philosophy of money exercised, currency became disassociated from politics in the minds of observers and subsequent generations.[25] If the politics of money has been largely invisible for liberal political thought, we can trace the origins of this eclipse back to Locke.

I develop the three strands of trust, language, and trade by situating Locke both within the textual context of his philosophical interlocutors as well as the political and economic contexts of his own contributions in word and deed. Using Locke's longstanding philosophical and political interest in questions of currency that culminated in his involvement in the Coinage Crisis, I develop a reading that integrates monetary questions into Locke's broader political philosophy. Beginning with a reading of Locke's

25 My argument of modern money's depoliticization mirrors in this regard Christine Desan's excellent recent account of the privatiziation of money creation during the seventeenth century in Christine Desan, *Making Money: Coin, Currency, and the Coming of Capitalism* (Oxford: Oxford University Press, 2015).

early engagement with money in the 1660s that occurred shortly after he had been first exposed to questions of colonial trade and administration, I move on to stress the ways in which Locke's argument about the consensual introduction of money in the *Second Treatise* stands in conversation with Samuel Pufendorf's account in *Of the Law of Nature and Nations* (section 2). By investigating the ways in which Locke is indebted to post-Hobbesian natural law debates about the conjectural histories of state and money, I show how Locke simultaneously relied on Pufendorf and deviated from him in a number of telling respects (section 3). I then turn my attention to Locke's *Essay Concerning Human Understanding* and the new grounding for moral and political philosophy defended there. Drawing on recent work on Locke's epistemology and philosophy of language, I argue that Locke's account of "mixed modes" in the *Essay* forms the crux of his understanding of money's constitutive precariousness (section 4). I derive from this some general implications about the role of trust in Locke's political philosophy (section 5). Once we appreciate both this epistemological argument about the limitations of communication as well as Locke's reworking of Pufendorf in the light of colonial trade, the philosophical and political stakes at the heart of Locke's position in the Coinage Crises emerge clearly (section 6). I conclude by turning to the liberal politics of depoliticized money entailed by Locke's argument and monetary advice (section 7).

2.2 The Origin of Money

Locke first formulated his views on money in the late 1660s, shortly after he had joined the household of Anthony Ashley Cooper, later the first Earl of Shaftesbury. In 1667, Locke had decided to leave Christ Church and enter Ashley's services, initially as tutor and physician but soon tasked with much broader responsibilities. Ashley was as busy as he was wealthy. At the time, he was Chancellor of the Exchequer and since 1663 one of eight Lords Proprietors with title to what would become the Province of Carolina. It was in this context that Locke began advising Ashley on commercial and political matters, both related to domestic concerns as well as the Carolina venture. Little more than a year after having joining the household, Locke penned a memorandum to Ashley, entitled *Some of the Consequences that are likely to follow upon Lessening of Interest to 4 Per Cent.*[26] In it, Locke was primarily concerned with critiquing demands for lowering the legal rate of interest from six to four percent. The proposal had found prominent support in the form of Sir Josiah Child, whose pamphlet for reduction was circulating widely. The matter had also since been put forward in a Commons bill that however failed to find support.[27] What makes Locke's position relevant for my argument in this chapter is less the politics of interest of the late 1660s as what he had to say about money in the process.

In the manuscript, Locke first drew a distinction between two different functions of money, a distinction that structures much of his subsequent thought on the matter. Money, Locke explained, always has two roles: it is necessary as "counters" for "even reconing;" but it also acts as "pledge" or "security."[28] Whereas it does the former "by its

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26 John Locke, "Some of the Consequences that are likely to follow upon lessening of interest to 4 per cent," in John Locke, *Locke on Money*, in two vols., The Clarendon Edition of the Works of John Locke, edited by Patrick Hyde Kelly (Oxford: Oxford University Press, 1991), vol. 1, 167-202. The text is based on Lovelace MS. e8, a draft manuscript dated 1668. It was first published in 1963.

27 Maurice Cranston, *John Locke: A Biography* (London: Longmans, 1957), 118; Kelly, "General Introduction," 9.

28 Locke, "Some of the Consequences," 202.

stamp and Denomination," it achieves the latter "by its intrinsick value which is noe thing else but its durableness, scarcity and not being apt to be counterfeited."[29] What mattered for trade, so Locke, was the role of money as a pledge, not as counters. "For since the bill bond or note of Debt I received from one man will not be accepted as security by another he not knowing that the bill or bond is true."[30] As Locke admitted, this was only ever truly so for foreign trade. Domestically, nominal money based on the government's pledge "may pass as valuable considerations within among your owne subjects but will not be taken as any parte of payment by a forainer."[31] Locke's very framing of the question and his related focus on foreign trade betrayed his new involvement with commercial matters that the association with Ashley had opened up.

Only a few years earlier, still teaching at Oxford, this would have been a foreign world to Locke. In his *Two Tracts* manuscript from the early 1660s, coinage had still appeared in a rather different and more straightforwardly political light. Drawing on both ancient custom as well as the standard account expounded in medieval and early modern political commentary, Locke explained – in a characteristic monetary metaphor – that the authority to coin money was one of the "tokens of sovereignty."[32] Coinage had long been

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29 Locke, "Some of the Consequences," 172.

30 Locke, "Some of the Consequences," 173.

31 Locke, "Some of the Consequences," 173.

32 John Locke, "Second Tract," in *Political Essays*, ed. Mark Goldie (Cambridge: Cambridge University Press, 1997), 56-57. The Tracts were composed in the early 1660s but were not published until 1967. It has often been suggested that Locke was still a conservative absolutist at the time of writing the *Tracts*. See Robert P. Kraynak, "John Locke: From Absolutism to Toleration," *The American Political Science Review* 74, no. 01 (March 1980), 53-69. For an excellent articulation of the prevailing nominalist doctrone, see Desan, *Making Money*, 108-150.

seen as a key sovereign prerogative and the rise of the early modern state had only furthered such claims.[33]

Where Locke had described coinage in the *Second Tract* without restrictions as a sovereign prerogative, in the 1668 manuscript we see two important shifts of emphasis. Coinage is still seen as a sovereign prerogative but its purpose is now narrowed to the advancement of commerce while its sovereign administration is severely curtailed by the new necessities and pressures of overseas trade. Navigation and commerce, he explained, had recently brought far-flung corners of the world into contact with each other, as well as into contact with the use of gold and silver. This imposed strict limitations. "In a Country that hath Commerce with the rest of the world it is almost Impossible now, to have any Coyne, but of Gold and Silver, and haveing mony of that it is Impossible to have any standing unalterable measure of the value of things."[34] Overseas trade had begun to weigh heavily on Locke's mind since his involvement with Ashley's Carolina business. Just as he made his first serious foray into questions of money, Locke had been tasked by Ashley with writing *The Fundamental Constitutions of Carolina*.[35] Eventually,

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33 On the sovereign right of coinage see also Hugo Grotius, *The Rights of War and Peace [1625], books 1-3*, ed. Richard Tuck (Indianapolis: Liberty Fund, 2005), Book 2, Chapter 4, Section 13, 502.

34 Locke, "Some of the Consequences," 195. Not only that but Locke also suggests a balance of trade argument based on this universal use of gold and silver.

35 John Locke, "The Fundamental Constitutions of Carolina," in *Political Essays*, ed. Mark Goldie (Cambridge: Cambridge University Press). The text is dated to 1669. Locke's involvement reached from constitutional concerns of the highest order to detailed plans for viticulture. David Armitage, "John Locke, Carolina, and the Two Treatises of Government," *Political Theory* 32, no. 5 (October 2004), 602-27.

Locke took over much of the administration of Carolina and was appointed, briefly, to the Council of Trade and Foreign Plantations in the early 1670s.[36]

A decade later, at the height of the Exclusion Crisis of the early 1680s, Locke returned to these questions as he began work on the theoretical foundations of his account of money and property for the *Second Treatise.* As I argue in this and the next section, it was in particular the work of Samuel Pufendorf, an exact contemporary of Locke, that served him to formulate and clarify his own position. In 1681, Locke studied Pufendorf's magisterial, eight-volume *De Jure Naturae et Gentium*, a work that left an indelible mark on him.[37] Not that he found himself entirely in agreement.[38] His critique of Pufendorf

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36 Locke even prepared a new decimal currency for the colony based on the sterling penny. Kelly, "General Introduction," 5.

37 Samuel Pufendorf, *De Jure Naturae et Gentium Libri Octo* (Londini: Scanorum, 1672). The text was republished and translated in 1934 as part of the Carnegie Classics of International Law Series. Samuel Pufendorf, *De Jure Naturae et Gentium. Of the Law of Nature and Nations, with an introduction by W. Simmons, two volumes*, trans. C. H. Oldfather and W. A. Oldfather (Oxford: Carnegie Classics of International Law Series, 1934). For the dating of the *Second Treatise* (in particular the crucial fifth chapter) and his encounter with Pufendorf, see Armitage, "John Locke, Carolina, and the Two Treatises of Government," 602-627. As John Marshall summarizes, "Locke's reading of Pufendorf in mid-1681 and 1682 very probably provided him with some significant elements of the form of his argument." John Marshall, *John Locke. Resistance, Religion and Responsibility* (Cambridge: Cambridge University Press, 1994), 203. When later asked to compile a reading list on politics and the "origin of society," Locke placed Pufendorf's *De Jure Naturae et Gentium* on top of his list of recommended books. Locke, *Political Essays*, 377. Similarly in *Some Thoughts concerning Education*, Locke singles out the importance of Pufendorf. Locke, *Some Thoughts concerning Education*, §186.

38 As Richard Tuck, James Tully, and the late Istvan Hont have shown, in the *Second Treatise* Locke advanced an implicit critique of Pufendorf's argument concerning property and, relatedly, the role of consent and money in pre-political society. For Locke as an implicit critic of Pufendorf see Richard Tuck, *The Rights of War and Peace: Political Thought and the International Order from Grotius to Kant* (Oxford: Oxford University Press, 1999), 167-181, on money esp. 175. For Tully's argument that Locke qualifies the Grotius/Pufendorf argument about pre-political property, see Tully, *A Discourse on Property*, 98; Istvan Hont and Michael Ignatieff, "Needs and Justice in the Wealth of Nations: an introductory essay," in *Wealth and Virtue. The Shaping of Political*

unfolded along two lines. First, Locke differed from Pufendorf in the historical sequencing of the origins of money, property, and civil society. Relatedly, Locke attempted to escape the strictures of Pufendorf's insistence on express consent for the acquisition of property by way of a merely tacit consent to the introduction of money. Money is thus at the heart of both areas of engagement with Pufendorf. In the rest of this section I will first lay out Pufendorf's position before registering Locke's agreements and disagreements in the next.

Pufendorf posited two fundamental claims. First, like Bodin, Hobbes, and many others, he introduced coinage as a sovereign prerogative. Secondly, Pufendorf placed severe limits on the sovereign's right and ability to exercise this prerogative.

> In states the sovereign has the right to establish the value of the currency [*nummi*]; hence it is usually stamped with official symbols. In establishing the value of the currency we must take notice of the common valuation of neighbouring nations or trading partners. For otherwise if a state puts too high a value on its currency [*nummis*] or if it does not mix the alloy properly, it will impede that part of its trade with its neighbours which cannot be conducted by simple exchange of goods. This is precisely the reason why a change in the value of the currency [*valore nummorum*] should not be made lightly, but only if required by a very severe crisis in the country.[39]

Interference with the currency was heavily constrained by commercial interdependencies and appropriate, at best, as a desperate crisis measure of last resort. Locke agreed with

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Economy in the Scottish Enlightenment (Cambridge: Cambridge University Press, 1983), 39; Armitage, "John Locke, Carolina, and the Two Treatises of Government," 606.

39 To summarize his conclusions for teaching in the universities Pufendorf reduced the more than a thousand pages of *De Jure* to a teaching compendium, *De Officio Hominis & Civis Juxta Legem Naturalem.* Much had to be cut, including an extensive history of money in Book Five of *De Jure* to which I turn below. Samuel Pufendorf, *On the Duty of Man and Citizen according to Natural Law [1673]*, ed. James Tully, trans. Michael Silverstone (Cambridge: Cambridge University Press, 1991), 1.14.9, page 96.

both of these positions, even as he substantially radicalized the latter and reworked the former.

In *De Jure*, following a detailed exposition of the scholastic distinction between use and exchange value, Pufendorf turned his attention to a conjectural history of money.[40] The resulting narrative pivoted around the emergence of "luxurious desires" (*cupiditates*) that had led most nations to give up on their "primitive simplicity" and, no longer content with what was produced at home, develop a yearning for the delights of other climes.[41] The result, Pufendorf concluded, was that

> it has seemed best to most nations, which have enjoyed a higher level of culture, to set by agreement [*conventione*] an *eminent* price on a particular thing, which would serve as a measure for the proper prices of other things, and in which they would be fully contained, so that by it as a medium a man could secure for himself anything that was for sale and carry on all commerce and fulfill every agreement [*contractus*] with perfect convenience.[42]

On Pufendorf's conjectural account, money was born as a convention for the purpose of convenience to satisfy increasing material desires. It was thus only subsequent to the embrace of acquisitiveness that money was introduced. The introduction of money *followed* the loss of "primitive simplicity" and the associated rise of "luxurious

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40 What Pufendorf called ordinary and eminent price, *pretio vulgare* and *pretio eminens*. Where ordinary value refers in Pufendorf's account to things or actions that actually "afford service and pleasure to men," eminent value is linked to "money and whatever serves in its place [*numo, & quicquid eius vicem gerit*] … to furnish a common standard for their measurement." Samuel Pufendorf, *De Jure Naturae et Gentium Libri Octo* (Oxford: Carnegie Classics of International Law Series, 1934), 5.1.3-11, 458-467. Pufendorf, *Of the Law of Nature and Nations*, 5.1.3-11, 676-689.

41 Pufendorf, *De Jure Naturae et Gentium*, 5.1.11, 467. Pufendorf, *Of the Law of Nature and Nations*, 5.1.11, 690.

42 Pufendorf, *De Jure Naturae et Gentium*, 5.1.12, 468. Pufendorf, *Of the Law of Nature and Nations*, 5.1.12, 690. Pufendorf's emphasis.

desires."[43] In support of his narrative, Pufendorf turned to Aristotle's brief historical account from Book One of the *Politics* (1257a32-41).[44] As I argued in the last chapter, this passage captures one side of Aristotle's self-consciously ambivalent account of *nomisma*. It is necessary to reconcile it with Aristotle's more explicitly political account in the *Nicomachean Ethics*. Pufendorf did in fact go on to reproduce two short passages from Book Five of the *Ethics* (1133a26-32 and 1133b15-18) that emphasize the role of *nomisma* as a conventional measure of need that facilitates the formation of associations, but he left these excerpts uncommented.[45] Instead, he affirmed that when needs were simple, money was not yet necessary but that with the growing complexity of demand, the need for money eventually arose. For Pufendorf, "since we cannot know at the present what we will want in the future and how much of it, *nomisma*, or money, was introduced in order that we might be sure in advance that we would have thereafter the means to secure what we should need in the future."[46] Money allowed, in other words, for the intertemporal satisfaction of our newly expanded tastes.

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43 This was also the chronology offered by Boisguilbert in his 1704 *Treatise on the Nature of Wealth, Money, and Taxation*. Pierre le Pesant Sieur de Boisguilbert, *Dissertation de la nature des richesses, de l'argent et des tributs, où l'on découvre la fausse idée qui règne dans le monde à l'égard de ce trois articles* [1704], translated with an introduction by Peter Groenewegen as *A Treatise of the Nature of Wealth, Money and Taxation* (Sydney: Centre for the Study of the History of Economic Thought, 2000), 4-5.

44 Pufendorf reproduced the passage in full. Pufendorf, *De Jure Naturae et Gentium*, 5.1.11, 468. Pufendorf, *Of the Law of Nature and Nations*, 5.1.12, 690-691.

45 In his excerpt, Pufendorf in fact merged two passages (1133a29-32 and 1133b18-20) into one. Pufendorf, *De Jure Naturae et Gentium*, 5.1.12, 468. Pufendorf, *Of the Law of Nature and Nations*, 5.1.12, 691.

46 Pufendorf, *De Jure Naturae et Gentium*, 5.1.12, 468. Pufendorf, *Of the Law of Nature and Nations*, 5.1.12, 690. Besides the passages from Book Five, Chapter Five of the *Nicomachean Ethics* and Book One of the *Politics*, Pufendorf also reproduced two short lines from the *Magna Moralia* and the *Rhetoric*, respectively. Pufendorf, *De Jure*

In line with this emphasis on the invention of money for foreign trade based on luxurious desires (instead of the use of currency within political communities, implied by the passage from the *Nicomachean Ethics*), Pufendorf turned next to the importance of trade with other nations and the associated use of bullion.[47] What followed was a delicate balancing act between on the one hand accounting for the conventionality of money so heavily emphasized by Aristotle, and on the other hand denying much of its practical relevance. The use of metal, Pufendorf acknowledged, was not natural but based on agreement. "Since this function of money [as metal] is not given it by any necessity arising from its nature, but by the imposition and agreement of men, … it is obvious that other materials can be and are used under stress of circumstances or by preference."[48] Leather, paper, and many other materials had for this reason at various times been used in cases of great necessity. But despite these theoretical possibilities, in normal times the material of choice was metal and foreign trade placed strict practical limits on its alterability.[49] For although the value of gold and silver was conventional and had sprung from the agreement of men, governments were not free to change it at will. Instead, they were bound to uphold money's purpose of furthering commerce, not merely between

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Naturae et Gentium, 5.1.12, 468. Pufendorf, *Of the Law of Nature and Nations*, 5.1.12, 690.

47 Pufendorf, *De Jure Naturae et Gentium*, 5.1.13, 469. Pufendorf, *Of the Law of Nature and Nations*, 5.1.13, 691.

48 Pufendorf, *De Jure Naturae et Gentium*, 469. Pufendorf, *Of the Law of Nature and Nations*, 5.1.13, page 692. Pufendorf, *On the Duty of Man and Citizen*, 1.14.8, 96.

49 Grotius had made a similar point but in more general terms when he denied that money simply derived its value from its metal content but instead defined it as the capacity of offering comparison in stable value. The difference to Locke is subtle but substantive. Grotius, *The Rights of War and Peace*, Bk. 2, Ch. 12, Section 17, 751.

citizens of the same state but also, as Pufendorf stressed, between those of different states.[50]

2.3 "By a Tacit and Voluntary Consent"

Locke read all this with great attention. A number of significant similarities between in his own earlier account and Pufendorf's lengthy exposition are immediately discernible. Money is conventional yet closely linked to foreign trade, it is a sovereign prerogative yet tied to metal and constrained by the world price of bullion. But where Pufendorf had argued that money was introduced as a *result* of mankind departing from its primitive simplicity, in the *Second Treatise* Locke reversed the chronology.[51]

> Men, at first, for the most part, contented themselves with what un-assisted Nature offered to their Necessities: and though afterwards, in some parts of the World, (where the Increase of People and Stock, with the *Use of Money*), had made Land scarce, and so of some Value, the several *Communities* settled the Bounds of their distinct Territories, and by Laws within themselves regulated the Properties of the private Men of their Society, and so, *by Compact* and Agreement, *settled the Property* which Labour and Industry began. (ST 45)

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[50] Pufendorf, *De Jure Naturae et Gentium*, 5.1.14, 470. Pufendorf, *Of the Law of Nature and Nations*, 5.1.14, 693-694. Pufendorf's emphasis on foreign trade also points toward his influential attempt to carve out a space for commercial sociability before and alongside the state. On the significance of Pufendorf's defense of commercial, pre-political sociability see Istvan Hont, "The Language of Sociability and Commerce: Samuel Pufendorf and the Theoretical Foundations of the 'Four Stages' Theory," in *Jealousy of Trade* (Cambridge MA: Harvard University Press, 2005), 159-184; as well as Istvan Hont, "Introduction," in Istvan Hont, *Jealousy of Trade. International Competition and the Nation-state in Historical Perspective* (Cambridge MA: Harvard University Press, 2005), 37-41. Where Hont discerned a pragmatic utilitarianism on Pufendorf's part, Richard Tuck stresses a theologically inflected assertion of natural sociability. See Tuck, *The Rights of War and Peace*, 140-165, esp. 141-142.

[51] I here draw on and extend the commentary in Hont and Ignatieff, "Needs and Justice in the Wealth of Nations," 39 and Hont, *Jealousy of Trade*, 429. See also Tuck, *The Rights of War and Peace*, 175 where the point is made succinctly in passing.

In his account, Locke distinguished between three stages: first, a pre-monetary state of nature that included elements of natural authority; second, after the introduction of money a brief transitional state of nature with money (what I call "the state of money"); and, finally, a state of civil society founded by political compact.

There were thus two distinct pre-political states. In the first, man cultivated nature through his labor in line with God's command but without yet having recourse to money. The second introduces money. Although God had given the world to men in common, he gave it to them so they could derive "the greatest Conveniencies of Life they were capable to draw from it." (ST 34) This implied an imperative for cultivation but it also specified strict natural law constraints on the proceeds of this cultivation. Locke described this first state of nature as one of relative plenty and, due to strict natural law constraints, relative equality. This was a time before the Fall – "before the desire of having more than Men needed, had altered the intrinsick value of things." (ST 37) In this natural state, unquestioned trust could give rise to natural authority.

It was into this state of relative equality and natural trust that money was introduced with consequences as momentous as they were manifold. Natural law limitations on accumulation were now overridden and men's covetous desires unleashed. With money came an increase both in accumulation and in population that made land scarce and raised its value (ST 45). "The invention of money," Istvant Hont has summarized Locke's account, "broke all the natural limits of primitive society."[52] The

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[52] Istvan Hont, *Politics in Commercial Society: Jean-Jacques Rousseau and Adam Smith* (Cambridge MA: Harvard University Press, 2015), 67. As Hont noted with reference to Locke's account of the introduction of money, "The impact of this on politics (in Chapter VIII), was as great as the dramatic reshaping of the economy (in Chapter V), even if Locke did not explicitly correlate the two in detail." Istvan Hont,

circumvention of the previous natural law constraints that increased the value of land also implied inequality, disorder, and disputes. In describing this state of money, Locke paints the picture of an unstable mixed state that is pre-political but already displays the divisive effects of the wealth and inequality introduced by money. It is out of the resulting conflicts that eventually and inevitable the necessity for civil government emerges.[53] As Hont stressed, while a primitive kind of government based on natural authority and lacking consent had already existed in the premonetary state of nature, the introduction of money now made necessary a particular form of legislative government, the civitas or political society, which relied on express consent.[54] Original pre-political governments of natural authority were thus corrupted by the introduction of money and the rise of commerce, necessitating a new kind of regime that could control executive power and resolve the new conflicts caused by the introduction of money.

The subtle implications of this account can be best appreciated in comparison to Pufendorf.[55] For Pufendorf, mankind departed from its "primitive simplicity" based on barter and use value toward "various forms of profit-making" as a result of a growing desire for foreign riches. Money was a crucially important but largely epiphenomenal and

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"Adam Smith's history of laws and government as political theory," in *Political Judgement*, ed. Richard Bourke and Raymond Geuss (Cambridge: Cambridge University Press, 2009), 144n46.

53 Istvant Hont has described this transition caused by money as a "revolution" from a system based on natural authority to a political commonwealth based on consent and legislation. Hont, "Adam Smith's history of laws and government as political theory," 143-144; almost verbatim repeated in Hont, *Politics in Commercial Society*, 66-67.

54 Hont, "Adam Smith's history of laws and government as political theory,", 142-144. See also Hont, *Politics in Commercial Society*, 66-67. Despite the eventual turn to consent, Hont has consequently described Locke's account as primarily a "noncontractual history of government." (78)

55 As Hont also noted, despite the vast changes the transition brought Locke's own account of it was rather sketchy. Hont, *Politics in Commercial Society*, 66-67.

merely responsive tool in this process. In Locke's account, by contrast, money acquired a pivotal significance at the threshold of civilization. Already Pufendorf had mobilized material from the *Digest* to suggest a relationship between money and civilization. "It is perfectly plain that those nations which are unacquainted with the use of currency have no part in the advances of civilization," he claimed.[56] On Locke's account that suggestive relationship became a causal one. The absence of money was not just a diffuse sign of backwardness but its very cause (ST 36).

Behind Locke's famous claim that "in the beginning all the World was *America*" stood not some vague reference to the state of nature in the New World but the (mistaken) claim that much of America still lacked money and *therefore* found itself in an age before accumulation could take place. "Thus in the beginning all the World was *America*, and more so than that is now; for no such thing as *Money* was any where known. Find out something that hath the *Use and Value of Money* amongst his Neighbours, you shall see the same Man will begin presently to *enlarge* his *Possessions*." (ST 49)[57] Where Pufendorf had drawn a loose relationship between the introduction of money and an increase in avarice, in Locke's argument money explosively unshackled covetousness from the constraints of natural law. With the no-spoilage provision conveniently circumvented by the introduction of money, there were few limits left to covetous acquisitiveness. Locke could consequently, as Pincus has summarized, "imagine

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56 Pufendorf, *De Jure Naturae et Gentium*, 5.1.11, 467. Pufendorf, *Of the Law of Nature and Nations*, 5.1.11, 690.

57 Richard Tuck has emphasized the novelty of this argument, "[Locke] also – and this I believe, was a wholly original idea – argued that it was the absence of a general money, acceptable in a wide geographic area (as gold and silver were in the Old World) which had stopped the American Indians from developing proper agriculture." Tuck, *The Rights of War and Peace*, 175.

a world of unrestrained acquisitive behavior, but that world existed only after the Fall and before humans entered into civil society."[58] This period between the Fall and civil society was the state of money. Prior to it, natural law constraints against spoilage had delimited accumulation. And once the age of money had given rise to civil society, laws and regulations could rightfully place limits on accumulation – though Locke's capacious definition of property seems to imply that certain forms of political interference would run the risk of undermining the very purpose of the political compact.

The introduction of an unstable intermediary state of money has stark implications for it allows Locke to escape the strictures of Pufendorf's insistence on express consent for the acquisition of property.[59] Locke agreed with Pufendorf in his insistence on express consent for the acquisition of property domestically – "'Tis true, in *Land* that is *common* in *England*, or any other Country, where there is Plenty of People under Government, who have Money and Commerce, no one can inclose or appropriate any part, without the consent of all his Fellow-Commoners." (ST 35) – but Locke's entire theory of property and money was designed to deny it in the context of the American

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58 Steven Pincus, "Neither Machiavellian Moment nor Possessive Individualism: Commercial Society and the Defenders of the English Commonwealth," *The American Historical Review* 103, no. 3 (June 1998), 705-36, 733.

59 As Hont and Ignatieff put it, "now they could trade away their perishable surpluses and hoard money in return, claiming that the possession of money qualified as 'use.' By agreeing to create a money system, men agreed, in effect, to create a system of inequality." 39. Already Locke's contemporaries perceived this to be the truly novel and provocative feature of his argument in the fifth chapter of the *Second Treatise.* Jean Barbeyrac, for example, described Locke's unique contribution in his influential annotated translation of Pufendorf into French in these terms. Locke, Barbeyrac explained, created an account of a time during which explicit contractual consent were not yet necessary for the acquisition of property. Samuel Pufendorf, *Le droit de la nature et des gens*, two volumes, translated and annoted by Jean Barbeyrac, fourth edition (Chez E. & J. R. Thoureneisen, Bâle, 1732) [first ed. 1706], 4.4.3.n4, 4.4.4.n2, 4.4.9.n2, 4.6.2.n1.

colonies. Locke's account was thus explicitly tailored toward two different arenas: contractual consent in England, appropriation without consent and instead through labor-mixing in the colonies.

Locke's argument required three distinct steps. First, he had to theorize the pre-monetary state of nature not as one of scarcity but instead as one of abundance (albeit at a low level) and non-conflictual natural trust. Secondly, he had to counteract this premise of relative abundance at the same time by assuming man to be already naturally covetous. Thirdly, man's natural covetousness in the pre-monetary state of nature had in turn to be constrained by the strictures of natural law. Pufendorf had suggested precisely the inverse. As we saw above, for Pufendorf, starting from a state of natural scarcity mankind gradually became covetous and consequently left "its primitive simplicity" to pursue "various forms of profit-making."[60] Locke's revision of Pufendorf's account suddenly placed enormous pressure on the introduction of money. Whereas in Pufendorf it had been merely another step by an increasingly covetous mankind on its way toward "an ampler way of life," for Locke the introduction of money was a truly momentous occasion. It was only through the decision to put an artificial exchange value on an almost useless commodity like gold or silver that mankind licensed itself to cheat its way around the no-spoilage provision rooted in natural law.

On Locke's account, this was an ingenious feat of the imagination. Through the invention of money men were able to live up to God's command for the cultivation of the earth in hitherto unimaginable ways without violating God's simultaneous provisions against spoilage. The theological ambivalence of this productive deceit emanates from

60 Pufendorf, *On the Duty of Man and Citizen*, 1.14.7, page 95.

Locke's admiring yet somewhat terrified tone when discussing the power of money.[61] If money was an artificial way to store up labor power and prevent spoilage, the objects chosen for this purpose were established not by nature but by mere "Fancy or Agreement." (ST 46)

> For as to money, and such riches and treasure taken away, these are none of nature's goods, they have but a fantastical imaginary value: nature has put no such upon them: they are of no more account by her standard, than the wampompeke of the Americans to an European prince, or the silver money of Europe would have been formerly to an American. (ST 184)

The notion of consent clearly plays an important role in licensing this act of imaginary value creation. In setting out his account of the origins of money, Locke does not tire of speaking of "mutual consent" (ST 47), "the consent of men" (ST 50), "tacit agreement" (ST 36, 50), and finally of "a tacit and voluntary consent" (ST 50) that give rise to "this invention of money" (ST 48). But though the "partage of things in an inequality of private possessions" (ST 50) occurred by tacit consent it was not based on a political compact. Instead it occurred "out of the bounds of society, and without compact, only by putting a value on gold and silver, and tacitly agreeing in the use of money." (ST 50) Crucially, it was a case of tacit consent prior to civil society, and emphatically not an instance of a political compact or covenant.[62] Locke's account of the origin of society

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[61] As Douglas Casson has pointed out, Locke was "deeply concerned with the influence money could have on the moral basis of human action." Casson, *Liberating Judgment*, 235. See also Marshall, *John Locke. Resistance, Religion and Responsibility*, 267-268, 309 and Jeremy Waldron, *The Right to Private Property* (Oxford: Oxford University Press, 1988), ch. 6. As a result, in his *Thoughts on Education* Locke strictly admonished parents to delay contact with money for as long as possible and to avoid monetary rewards. John Locke [anon.], *Some Thoughts Concerning Education* (London: Printed for A. and J. Churchill, 1693), 51-52.

[62] See also Dunn, *The Political Thought of John Locke*, 117-118. Dunn describes the consensual acceptance of money as "a paradigm indeed of *anthropine ktisis* [human agreement S.E.]." (117-118) It was precisely its reach across all humanity that

builds thus on two radically distinct consensual arrangements. Through the tacit agreement to the artificial creation and use of money men first leave the original state of nature and enter civilization. Only in a second step do individual communities within this state of money enter a second contract in the form of a political covenant that founds a civil government.[63]

Locke's famous account of labor mixing in the *Second Treatise* can thus be read as a direct critique of the Pufendorfian insistence on explicit consent for the acquisition of property in a colonial context. Once we are aware of this context, it is hard not to appreciate the way in which the colonial context with its denial of express consent inserts itself into Locke's argument in a way that was not quite the case for Pufendorf. Consider the way paragraph 28 culminates in Locke's claim that "the taking of this or that part does not depend on the express consent of all the commoners. Thus the grass my horse has bit; the turfs my servant has cut; and the ore I have digged in any place, where I have a right to them in common with others; become my property, without the assignation or consent of any body." (ST 28) As a result of his new reliance on the tacitly consensual introduction of money coupled with an account of property through labor-mixing, Locke was able to set out, in Richard Tuck's words "clearer than anyone had hitherto done," the

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distinguished the monetary compact for Locke from the political one. On the notion of *anthropine ktisis*, see Lee Ward, *The Politics of Liberty in England and Revolutionary America* (Cambridge: Cambridge University Press, 2010), 225 and Thomas L. Pangle, *The Spirit of Modern Republicanism: The Moral Vision of the American Founders and the philosophy of John Locke* (Chicago: University of Chicago Press, 1988), 138.

63 On the role of a "social imaginary" involved in this Lockean re-conception of the social contract in two stages see Charles Taylor, *Modern Social Imaginaries* (Durham NC: Duke University Press, 2004), 87. Taylor highlights the dual pre-political outlines of an economy and a public sphere contained in Locke's account.

right to settle in "the vacant places of America" (ST 36).[64] One important context for the *Second Treatise*, and in particular Chapter Five with its numerous allusions and references to America, were thus Locke's experiences gathered from the colonial administration of Carolina.[65] Though he never set foot in America, Locke had long been trying to convince potential settlers of the promises awaiting prospectors in the colonies. "[T]here are still great Tracts of Ground to be found," he invitingly touts in the *Second Treatise*, "which the Inhabitants thereof not having joyned with the rest of Mankind, in the consent of the Use of their common Money, lye waste, and are more than the People, who dwell on it, do, or can make use of, and so still lye in common. Though this can scarce happen amongst that part of Mankind, that have consented to the Use of Money." (ST 45) The passage makes a number of points but one of them was an open invitation to escape the crowded condition of the British Isles and make use of the vast and fertile lands of the Americas, in particular, in Carolina where "Locke Island" (today Edisto Island) was to be found.[66]

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64 Tuck, *The Rights of War and Peace*, 175. Also note the above reference to horse and servant that moves ambivalently between wage labor and indentured servitude, if not slavery.

65 As David Armitage has shown, Locke seems to have been working on the sections of the *Second Treatise* on property and money in the summer of 1682 just as he was intimately involved in a wholesale redrafting of the *Fundamental Constitutions of Carolina*. Armitage, "John Locke, Carolina, and the Two Treatises of Government," 616. Consistent with the colonial logic that insisted on the supply of money (even in the colonies) by English mints, the right of coinage is absent from Locke's *Fundamental Constitutions of Carolina* (1669). This denial of monetary autonomy would occupy a prominent place among the grievances of the eighteenth-century American revolutionaries.

66 Mark Goldie, "The Fundamental Constitutions of Carolina," in: Locke, *Political Essays*, 161.

As we saw above, already as secretary to Shaftesbury and the proprietors of Carolina (among them Shaftesbury) Locke had been deeply involved in managing colonial holdings. His brief official position as Treasurer to the English Council for Trade and Foreign Plantations from October 1673 to December 1674 only made this involvement explicit.[67] Two decades later, after the Recoinage he helped to direct, Locke was appointed as one of ten members to its successor, the Board of Trade, a position he held until ill health forced him to step down in 1700.[68] Labor and trade – in particular with the colonies – were the central vectors of Locke's political economy. "I can say that noe body has more warme wishes for the prosperity and therein for the trade of England than I have," Locke explained in 1697 to his then patron John Somers. And it was, of course, largely trade with "the plantations," as Locke himself mentions in the same letter.[69] The new Board of Trade was itself part of a broader attempt to respond to the political and monetary crisis of the 1690s that had also seen the balance of payments with the colonies deteriorate. Locke's involvement in both was symptomatic and much the same can be said for the intricate way in which the two issues were bound up in Locke's mind.[70] This dual emphasis on seventeenth-century natural rights debates and colonialism

67 Armitage, "John Locke, Carolina, and the Two Treatises of Government," 603, 621n6.

68 Laslett, "John Locke, the Great Recoinage and the Board of Trade," 370-385.

69 Locke to John Somers, 7 January 1697. Locke, *Correspondence*, vol. V, Letter 2172.

70 Laslett writes that "it was the prolonged and still deepening crisis over the balance of payments and the appalling state of the coinage that brought the politicians to the necessity of a new board of trade." Laslett, "John Locke, the Great Recoinage and the Board of Trade," 374. The Board's report on guineas from 1698 made these links explicit. See Kelly, "General Introduction," 37.

is far from accidental. On the contrary, the two were deeply entwined and often mutually reinforcing in profound ways.[71]

2.4 Linguistic Instability

In the last two sections I have situated Locke's argument concerning the introduction of money in post-Hobbesian natural law discourses, in particular a close engagement with Pufendorf. As I argued, Locke shared with Pufendorf an insistence on the pre-political nature of the monetary contract, but he altered Pufendorf's position by applying it, more explicitly than Pufendorf had ever done, to the colonial commercial context of settlements and plantations. The consequences of this move can be discerned most clearly in the case of money and property. In allowing for economic expansion without spoilage, for Locke money aligned a theological imperative for cultivation with a civilizing mission that lifted the colonies out of their previous state of nature. But leaving the state of nature did not mean they immediately entered civil government. By conceiving of money as pre-political, Locke left colonial expansion largely unchecked by the strictures of government. Instead, the colonial settlements existed in a pre-political "state of money" based on an ostensibly apolitical conception of money that could justify colonial expansion without immediately giving rise to political representation.

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71 As Tuck has pointed out, "the extraordinary burst of moral and political theorizing in terms of natural rights which marks the seventeenth century, and which is associated particularly with the names of Grotius, Hobbes, Pufendorf and Locke, was primarily an attempt by European theorists to deal with the problem of deep cultural differences, both within their own community (following the wars of religion) and between Europe and the rest of the world (particularly the world of the various pre-agricultural peoples encountered around the globe)." Richard Tuck, "Rights and Pluralism," in *Philosophy in an Age of Pluralism: The Philosophy of Charles Taylor in Question*, ed. James Tully (Cambridge: Cambridge University Press, 1994), 163.

In this section, I turn to Locke's conception of language in the *Essay Concerning Human Understanding* (1689) and expand on the critical exchange between Locke and Pufendorf in an epistemological key by situating Locke's argument concerning money in relation to his account of "mixed modes." This reveals both the sources of Locke's anxiety over the fragility of the monetary standard as well as his solution to it. I reflect on the political implications of this epistemological dimension in the next section by showing how Locke's consistent emphasis on trust in politics flowed from his account of linguistic and semantic fragility in the *Essay*.

Names, Hobbes remarked in Chapter Four of *Leviathan*, are "put to mark somewhat which is in Nature, or may be feigned by the mind of man."[72] Locke embraced aspects of Hobbes's linguistic constructivism but tailored it to his own purposes. In particular, by drawing a rigid distinction between naming nature and naming ideas Locke sought to accommodate the new natural sciences and provide an account of ideas in this changed light.[73] In the *Essay*, Locke conceptualized the naming of ideas in the form of "mixed modes." Mixed modes, he explained in Book Three, are "voluntary Collections"

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72 Hobbes, *Leviathan*, 4.18, 30. On Hobbes's linguistic constructivism see also David Grewal, *The Invention of the Economy* (Cambridge MA: Harvard University Press, forthcoming), ch. 4.

73 Throughout this part of my analysis I am indebted to the discussion in Constantine George Caffentzis, *Clipped Coins, Abused Words, and Civil Government: John Locke's Philosophy of Money* (New York: Autonomedia, 1989/1990), 77-124 and Carey, "John Locke's philosophy of money,"even though the two differ in crucial respects that I hope to clarify here. I am also indebted to Hannah Dawson's important work on Locke's philosophy of language more broadly and Steven Forde's recent re-reading. Hannah Dawson, *Locke, Language and Early-Modern Philosophy* (Cambridge: Cambridge University Press, 2007). Steven Forde, *Locke, Science, and Politics* (Cambridge: Cambridge University Press, 2013).

of ideas, "assemblages of *Ideas* put together at the pleasure of the Mind."[74] They are combinations of ideas not grounded in nature but instead constructs of the mind, put together "very arbitrarily" without direct reference to any pattern in nature.[75] Mixed modes have no fixed interpretation that binds them. They are, in Locke's terms, necessarily "very various and doubtful."[76] If mixed modes are mental constructs that can and will vary substantially between different linguistic communities (and often even within them), this implied a constitutive potential for confusion and fragility of any kind of linguistic exchange of ideas that were not mere observations about the natural world – in other words all of moral and political discourse and philosophy. As a result, linguistic ambiguity and confusion "hath invaded the great concernments of humane life and society" and "brought confusion, disorder, and uncertainty into the affairs of mankind."[77] As Hannah Dawson puts it beautifully in her important recent work on Locke's philosophy of language, for Locke "words act more like a painting than a window."[78] To stay with Dawson's metaphor, one might add that Locke must have imagined this linguistic painting as an expressionistic sketch in the Dutch rough style popular during his exile – certainly not a Vermeer.

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74 Locke, *Essay Concerning Human Understanding*, 3.9.7.

75 Locke, *Essay Concerning Human Understanding*, 3.5.3. See also 2.3.1-2; 2.22.8; 2.31.3; 3.5.3; 3.11.16. As Daniel Carey has recently put it: "Mixed modes draw together ideas, both simple and complex, to form new concepts, but they have no physical referent in the world to stabilise their meaning." Carey, "John Locke's philosophy of money," 74.

76 Locke, *Essay Concerning Human Understanding*, 3.9.7.

77 Locke, *Essay Concerning Human Understanding*, 3.10.12.

78 Hannah Dawson, "Locke on Language in (Civil) Society," *History of Political Thought* 26 (2005), 397-425, 402. Dawson, *Locke, Language and Early-Modern Philosophy*. Mixed modes suffer, in Daniel Carey's words, "from constant threats of abuse, changes of usage and conflicts of interpretation." Carey, "John Locke's philosophy of money," 74.

How can this potential for confusion resulting from the opacity of language and the precarious semantic malleability of mixed modes be combatted and linguistic exchange stabilized? Clarity was imperative, Locke argued. Words that failed to signify a unique idea or that signified no idea at all were to be avoided.[79] Furthermore, men were to take care to use words as closely as possible to the sense that common use had given to them.[80] "'Tis true," he explained, "*common Use*, that is the Rule of Propriety, may be supposed here to afford some aid, to settle the signification of Language; and it cannot be denied, but that in some measure it does. Common use *regulates the Meaning of Words* pretty well for common Conversation."[81] For philosophical discourse, however, the soft standards of common use were often insufficient. Common use was after all almost impervious to any intentional alteration as might be required for philosophical clarification. This was a frustrating limitation for philosophers but it was also a blessing for everyone else. For just as common use was largely resistant to interventions by philosophers it was similarly impervious to the influence of abusers of words.

If the mentally constructed nature of mixed modes was responsible for a certain fragility of language, it also implied enormous difficulties for translating mixed mode terms. The difficulties compounded when it came to the translation of complex ideas of mixed modes, such as measures of time, distance, and weight.

> [T]here is scarce one of ten amongst the names of complex *Ideas*, especially of mixed Modes, that stands for the same precise *Idea*, which the Word does that in Dictionaries it is rendred by. There are no *Ideas* more common, and less compounded, than the Measures of Time, Extension, and Weight, and the Latin names, *Hora*, *Pes*, *Libra*, are, without difficulty, rendred by the *English* names,

79 Locke, *Essay Concerning Human Understanding*, 3.11.8-9.

80 Locke, *Essay Concerning Human Understanding*, 3.11.11.

81 Locke, *Essay Concerning Human Understanding*, 3.9.8.

> *Hour*, *Foot*, and *Pound*: But yet there is nothing more evident, than that the *Ideas* a *Roman* annexed to these Latin Names, were very far different from those which an *English*-man expresses by those *English* ones.[82]

Interestingly, this also posed serious epistemological challenges to imperial rule and trade which Locke flagged repeatedly. "The terms of our Law," he explained, "which are not empty Sounds, will hardly find Words that answer them in the Spanish or Italian, no scanty Languages; much less, I think, could any one translate them into the *Caribee* or *Westoe* Tongues."[83] One significant conclusion Locke derived from this worry about the fragility and variability of language was the need for standardizing English spelling, punctuation, and capitalization rules – a reform he vigorously demanded and practiced.[84]

Money mirrored for Locke these anxieties about linguistic fragility, untranslatability, and a proneness for abuse. As Dawson notes, "in various ways Locke's treatment of money resembles his treatment of language, and both model his overarching conundrum: we must trust untrustworthy men."[85] The idea of nominal money constitutes a mixed mode in Locke's philosophical system – with all this implied in terms of

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82 Locke, *Essay Coneerning Human Understanding*, 3.5.8.

83 Locke, *Essay Concerning Human Understanding*, 3.5.8.

84 See in particular Locke, *Essay Concerning Human Understanding*, 3.10.13, 3.11.8-12. Hence my choice of preserving the seventeenth-century spelling conventions in this chapter's quotations. It is perhaps also this conscious effort of clarification that has recommended Locke's writings to generations of Anglophone scholars who could find in its (pretensions of) linguistic regularity and precision an echo of contemporaneity and common sense. As Caffentzis has pointed out, the spirit of Locke's reform efforts extends to Jonathan Swift's *Proposal for Correcting, Improving and Ascertaining the English Tongue* (1712) and later Samuel "Dr" Johnson's classic *Dictionary of the English Language* (1755). Perusing his enormous collection of rare seventeenth-century books, John Maynard Keynes came across the pioneering efforts of James Howell (c.1594-1666) to standardize English spelling and wrote to George Bernard Shaw, who was leading a campaign for spelling reform, drawing Shaw's attention to Howell, "the first pioneer whom you are following." Keynes to Shaw, 5 January 1946, letter in Keynes's copy Howell's *Epistolae Ho-Elianae* (London: 1645).

85 Dawson, *Locke, Language and Early-Modern Philosophy*, 289.

malleability and fragility. But precisely because the idea of money was a "mixed mode" resulting from "Fancy and Agreement" it was all the more important to somehow ground and constrain it. The concept of money, Locke feared, risked being little more than a precariously floating mixed mode with ill defined patterns of common use and strong temptations for devious abuse.

Instead money had to be stabilized. Locke proposed doing so in two ways. First, he insisted on tying it, like the mixed modes of moral concepts, to natural law and the divine intentions embodied therein. Both his stern insistence on promise keeping and his theologically-inflected account of the introduction of money in the *Second Treatise* fall into this register. Secondly, and more importantly, Locke sought to stabilize the mixed mode of money by tying it to the substance of silver (or gold in the case of guineas). For in contrast to mixed modes, he had argued in the *Essay*, substances "carry with them the supposition of some real Being, from which they are taken, and to which they are conformable."[86] Where mixed modes were made by language, substances were discovered. Rooted in certain natural patterns that can be ascertained empirically, substances were firmly grounded and not subject to the whims of linguistic construction.

> In our *Ideas* of Substances, we have not the liberty, as in mixed Modes, to frame what Combinations we think fit, to be the characteristical Notes, to rank and denominate Things by. In these we must follow Nature, suit our complex *Ideas* to real Existences, and regulate the signification of their Names, by the Things themselves, if we will have our Names to be signs of them, and stand for them.[87]

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86 Locke, *Essay Concerning Human Understanding*, 3.5.3.

87 Locke, *Essay Concerning Human Understanding*, 3.9.11. Similarly in the next chapter where Locke contrasts mixed modes with substances, citing the example of gold (3.10.19).

Money must, in Locke's parlance, not remain a mere mixed mode but rather be elevated to a complex compound consisting of the idea of a mixed mode and the idea of a substance. Only if linked to a metallic substance, its weight and fineness empirically assessed according to the new natural sciences, could the fragile mixed mode of money form the link between present, past, and the future in a stable and predictable way.[88] The value of a coin, he insisted as a result, was always equivalent to the amount of silver contained in it. The stamp only ever served to affirm the silver content but could not add or subtract from it. Seen from this perspective, any insistence on the pure nominal value was scarcely any less dangerous and corrupting than the clipping of coins by criminals or the willful abuse of words by scholastic sophists.

Locke's comparison of money to language is helpful both for the similarities and differences it brings to the fore. Playful analogies on coins and words were of course a trope with a distinguished ancient pedigree. In the seventeenth century, however, these quips suddenly found themselves at the heart of a number of new philosophical systems. What had long been a mere metaphor came to be taken literally. As we have already seen, Locke analogized language and money in a number of ways, always also drawing out what he took to be their differences. Once more, his debt to Pufendorf was crucial. In Book Four of *The Law of Nature and Nations*, Pufendorf had prepared his subsequent account of the origin of property and money by way of a long discussion of language and oaths. If an analogy between speech and money had indirectly structured the frame of Book Four, in the text itself Pufendorf made the link explicit. Quoting Sextus Empiricus,

88 Caffentzis, *Clipped Coins, Abused Words, and Civil Government*, 78. Locke's epistemological argument for silver can here be seen to converge in interesting ways with his argument based on the pressures of a world market in bullion.

he pointed out that just as words had conventional local meanings associated with them, so coins had their conventional values.[89] This nominalism was a standard interpretation. But Sextus Empiricus' aphorism contained a further lesson. It not only portrayed money as a conventional institution that varied by country depending on whatever was declared as "current," but it also indicated the collective constraints of such a nominalism. Just as someone printing her own private money and attempting to get it accepted will most likely be disappointed, failure to adhere to the common language use of the community renders one "a fool."[90]

Locke similar advanced his argument by first creating an analogy between language and money before proceeding to break it in the course of his argument. Moving his discussion of language toward problems of abuse and their potential remedies, Locke noted the long-standing metaphorical bridge to money. In coining and using words, he argued, it is crucial that men

> take care to apply their words as near as may be, to such ideas as common use has annexed them to. For Words, especially of Languages already framed, being no Man's private possession, but the common measure of Commerce and

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89 Sextus Empiricus's aphorism ran as follows: "In a state where a certain kind of money is locally current, whoever employs it may conduct every kind of business there without let or hindrance, while the man who does not accept this, but mints some new variety and wishes to use it as money, is a fool; so also in life, he who is unwilling to follow the kind of speech which is customarily employed, as he would use the current money, but coins a new language for himself, is not far from being a mad man." Sextus Empiricis, *Against the Mathematicians,* Book I, Chapter x. As quoted in Pufendorf, *De Jure Naturae et Gentium Libri Octo*, 4.1.6, 466. Hannah Dawson also partially quotes the line from Basil Kennet's translation but fails to mention that the Pufendorf is quoting Sextus Empiricus. Dawson, *Locke, Language and Early-Modern Philosophy,* 157.

90 The second part of Pufendorf's argument is remarkably reminiscent of Wittgenstein's private language argument.

> Communication, 'tis not for any one, at pleasure, to change the Stamp they are current in; nor alter the *Ideas* they are affixed to.[91]

Already earlier in the book, when listing numerous examples of linguistic abuse, Locke had introduced a monetary metaphor when referring to "the school-men and metaphysicians" as "the great mint-masters" of linguistic confusion.[92] Language is fragile and makes us prone to misunderstand each other unless we stick to common use. Money mirrors here the fragile role of language – albeit with some important inflections.

Let me briefly remain with those elements that held the analogy of coinage and speech together before describing how Locke broke it. In the *Essay*, Locke introduced language as the "great Instrument and common Tye of Society."[93] It is, after all, only through the performative use of language that we are able to make promises and oaths to each other. Promises and covenants bind us together and commit us to each other. It is they who constitute the real bonds (*vincula*) of our social existence.[94] This means that language is based on consent in two distinct senses: an act of semantic consent that allows for mixed modes to acquire meaning in the first place and a kind of moral consent not to abuse language.[95] But the use of words also entails a moral dimension that obliges

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91 Locke, *Essay Concerning Human Understanding*, 3.11.11. Locke immediately adds a half-sentence that conditions his previous prohibition: "or at least, when there is a necessity to do so, he is bound to give notice of it." Locke, *Essay Concerning Human Understanding*, 3.11.11.

92 Locke, *Essay Concerning Human Understanding*, 3.10.2.

93 Locke, *Essay Concerning Human Understanding*, 3.1.1. This foreshadows my discussion of trust below. See also 3.10.13: "...language, which was given us for the improvement of knowledge and bond of society."

94 Locke, "A Letter Concerning Toleration," 134.

95 Dawson has referred to this as "the doubly contractual nature of language." Dawson, *Locke, Language and Early-Modern Philosophy*, 277; however, whereas Dawson analogizes this contractual nature to a compact, I believe language in Locke's

us to speak the truth, to refrain from abusing words, and crucially not to break our promises. This moral command is a clear case of natural law and contravention constitutes a violation of God's will.

Money, like language, relies on this initial act of semantic consent backed up by a moral imperative of honoring one's words. But unlike language, money can be – and Locke insists it *must* be – tied to metal in order to stabilize its semantic fragility. This was Locke's great hope. Unlike language, money can in fact be stabilized.[96] In his second response to Edward Stillingfleet, the Bishop of Worcester, shortly after the Coinage Crisis in 1697, Locke sharpened this disanalogy between metal money and speech further than he had done in the *Essay* itself. As Locke put it in reply to the Bishop, who had employed an analogy between money and language to advance his critique of Locke: "The case in short is this: money, by virtue of the stamp received in the public mint, which vouches its intrinsic worth, has authority to pass. This use of the public stamp

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account is better captured by the tacit notion of "consent" than by formal contractual requirements. Language and money are based on consent, government on compact. Dawson, "Locke on Language in (Civil) Society," 403-408.

96 Dawson expresses this aspiration well when explaining that "[t]he connection between the public stamp and the metal beneath is generally considered more dependable than that between words and meanings." Dawson, *Locke, Language and Early-Modern Philosophy*, 289. If metal money could thus escape the troubling analogy between money and words, the same could not be said for credit money. As Locke puts it in drawing an analogy between the dangerous reliance on opinion (instead of knowledge) and the use of "fairy-money": "The floating of other men's opinions in our brains makes us not one jot the more knowing, though they happen to be true. What in them was science, is in us but opiniatrety; whilst we give up our assent only to reverend names, and do not, as they did, employ our own reason to understand those truths which gave them reputation. Aristotle was certainly a knowing man, but nobody ever thought him so because he blindly embraced, and confidently vented, the opinions of another. … Such borrowed wealth, like fairy-money, though it were gold in the hand from which he received it, will be but leaves and dust when it comes to use." Locke, *Essay Concerning Human Understanding*, 1.4.23

would be lost, if private men were suffered to offer money stamped by themselves."[97] Money circulates by virtue of the public stamp because the stamp ascertains the metal value of money, that is its intrinsic worth. Words, by contrast, Locke explained, "are offered to the public by every man, coined in his private mint, as he pleases; but it is the receiving of them by others, their very passing, that gives them their authority and currency, and not the mint they come out of."[98] Men are entitled to coin their own new mixed modes. To be sure, these will be bereft of meaning unless they are well received. But there is no principled natural law against the introduction of new words.[99]

As has become clear, much of Locke's position on coinage hinged on his attempt to supplement the fragility of money as a "mixed mode" by an insistence on the metal content of money. It was this complex argument that motivated his uncompromising insistence on money's "intrinsick value" that has so often puzzled commentators who saw in it a contradiction with Locke's simultaneous insistence on the conventional character of money and his emphasis on the tacit consent involved in its introduction. But already in 1668 Locke had argued that "intrinsick value" was not to be misunderstood as simply natural. Instead it was "onely in the opinion of men consenting to it, yet being

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97 John Locke, "Mr. Locke's Reply to the Bishop of Worcester's Answer to his second Letter," in *The Works of John Locke in Nine Volumes, Vol. 3* (London: 1824), 279.

98 Locke, "Mr. Locke's Reply to the Bishop of Worcester's Answer to his second Letter," 279.

99 Stillingfleet had accused Locke – not entirely without reason – of running foul of his own admonitions against the abuse and alteration of words in the *Essay*. In response Locke retorted, "the coining of money in publicly authorized mints affords no manner of argument against private men's meddling in the introducing new, or changing the signification of old words." (Locke, *Essay Concerning Human Understanding*, 279) Having fended off the theoretical aspect of Stillingfleet's accusation, Locke went on to deny the charge in any case. Locke, "Mr. Locke's Reply to the Bishop of Worcester's Answer to his second Letter," 280.

universall has generally but not allways … the same effect as if it were natural."[100] The additional emphasis on the substance of gold and silver as developed in the *Essay* added another argument to this point. For in contrast to ideas of mixed modes, ideas of substances were open to empirical verification by way of the experimental tools of the new natural sciences. Philosophically, intrinsic value derived from the notion of near universal tacit consent that had elevated gold and silver to the status of money. But it was now empirically possible to test whether a given substance *was* in fact the precious metal it pretended to be. Fool's gold could now be revealed as such in the laboratories that both Locke and Newton operated.[101]

Steven Forde has recently rightly reminded us that Locke's purpose in the *Essay,* and his reliance on "mixed modes" in particular, must be seen as an attempt to assist the new natural sciences and apply their new insights to philosophy.[102] After all, not only does the *Essay* repeatedly refer to Robert Boyle's "corpuscular" hypothesis but Locke explicitly declared such aims in the Epistle to the Reader. Having admiringly introduced Boyle, Sydenham, Huygenius, and "the incomparable Mr. Newton" as those "master-

100 Locke, "Some of the Consequences," 172-173.

101 William R. Newman, *Atoms and Alchemy: Chymistry and the Experimental Origins of the Scientific Revolution* (Chicago: University of Chicago Press, 2006). Peter R. Anstey, *John Locke and Natural Philosophy* (Oxford: Oxford University Press, 2011), 176-177. Locke inherited Boyle's papers and laboratory notes in 1691 and copied more than 200 pages of chemical and alchemist notes from the papers. He subsequently attempted to recreate many recipes and sought Isaac Newton's help for missing techniques or solvents. Anstey, *John Locke and Natural Philosophy,* 176-177. See also Newton to Locke, 2 August 1692. Locke, *Correspondence*, Vol. 4, 488-490. The historical context to these experiments was the 1688 passing of The Royal Mines Act which repealed the Act Against Multipliers from 1404 that had prohibited experiments suspected of alchemy.

102 Forde, *Locke, Science, and Politics*; as well as Steven Forde, "'Mixed Modes' in John Locke's Moral and Political Philosophy," *The Review of Politics* 73, no. 4 (2011)

builders, whose mighty designs in advancing the sciences, will leave lasting monuments to the admiration of posterity," Locke declared his own purpose as a more modest working through of the philosophical fall-out of the advances of the new natural sciences.[103] "It is ambition enough," he explained, "to be employed as an under-labourer in clearing the ground a little, and removing some of the rubbish that lies in the way of knowledge."[104] That rubbish consisted mainly of scholastic theories of forms, themselves distorted derivatives of Aristotle's theory of formal causes.[105]

Interestingly, the reconceptualization of moral philosophy on the basis mixed modes implied for Locke the theoretical existence of demonstrative certainty, albeit only accessibly for a divine legislator. "[T]he theory of mixed modes," explains Forde, "cannot ground any absolute or objective morality in the absence of such a legislator."[106] As Locke puts it, "the true ground of Morality … can only be the Law of a God, who sees Men in the dark, and has Power enough to punish the proudest Offender." (*Essay* 1.3.6) At this point a double irony becomes discernible. For not only did Locke's assertion of the natural sciences require a nominalist stance in moral matters, but the very fragility of that nominalism required Locke to anchor it again in laws of nature that now flowed directly from a divine being. It was precisely the embrace of the new natural sciences that required an additional emphasis on the omnipotence of a divine lawgiver. Nature, robbed

103 Locke, *Essay Concerning Human Understanding*, Epistle Dedicatory.

104 Locke, *Essay Concerning Human Understanding*, Epistle Dedicatory.

105 Forde also traces Locke's framing of the problem of understanding in terms of "mixed modes" back to Pufendorf. Forde, *Locke, Science, and Politics*, 7. As Pufendorf puts it, we can refer to things because we have "fix'd" (*imposuerunt*)" words upon things. Pufendorf, *Of the Law of Nature and Nations*, IV, 274. As quoted in Dawson, *Locke, Language and Early-Modern Philosophy*, 157.

106 Forde, *Locke, Science, and Politics*, 8.

of its scholastic formal causes, was morally empty. Instead, morality consisted of the conscious imposition of moral modes upon nature. This left only two options, either a radical embrace of human constructivism with all its consequences (a path probed by Hobbes), or a new reliance on a divine free agent whose legislation served as the basis of morality (the position defended by Pufendorf and Locke).[107]

2.5 Trust, the Bond of Society

Trust and a worry about the instability of societal norms frame much of Locke's political thought. As John Dunn has noted on several occasions, the pivotal concern of Locke's political philosophy is the question of trust. "At the centre of Locke's conception of government – and catching the ambivalence of this vision – was the idea of trust."[108]

107 Forde, "'Mixed Modes' in John Locke's Moral and Political Philosophy," 595. Besides Pufendorf, William Petty appears to have been another influence on Locke's monetary thinking. Locke's library included five works by Petty and in his notes from 1691 there are to be found two further unpublished papers by Petty. At the height of the campaign for recoinage, Locke helped to publish a previously only privately circulating essay of Petty's on money from 1682. Brief and aphoristic, the essay (entitled *Quantulumcunque concerning Money*) converges with Locke's own recommendations. In it, Petty responded to thirty-two hypothetical questions, insisting throughout on the restoration of the old metal value and stressing the need to settle ancient debts at the ancient rate. Petty, "Quantulumcunque concerning Money," 440, 443, 444. See also Kelly, "General Introduction," 96-97, 97n1.

108 John Dunn, *Locke: A Very Short Introduction* (Oxford: Oxford University Press, 2003), 64. John Dunn, "The concept of 'trust' in the politics of John Locke," in *Philosophy in History. Essays in the Historiography of Philosophy*, ed. Richard Rorty, Jerome B. Schneewind, and Quentin Skinner (Cambridge: Cambridge University Press, 1984). John Dunn, "Trust," in *The History of Political Theory and other Essays* (Cambridge: Cambridge University Press, 1995). This emphasis on trust also formed an important part of Laslett's and J.W. Gough's readings. J. W. Gough, *John Locke's Political Philosophy. Eight Studies* (Oxford: Clarendon Press, 1950). Peter Laslett, "Introduction," in *John Locke, Two Treatises on Government*, ed. Peter Laslett (Cambridge: Cambridge University Press, 2010). See also the insightful analysis of trust

In this section and the next I explore the sources and implications of this claim by first tracing its roots throughout Locke's work before then linking it to his monetary writings in particular.

Already in October 1659, in his late twenties, Locke had written to a friend: "Men live upon trust and their knowledge is noething but opinion moulded up between custome and Interest, the two great Luminarys of the world, the only lights they walke by."[109] A formulation of this basic intuition would come to form a key pillar of Locke's political philosophy, first tentatively in his early lecture notes, later in a constitutive form in his mature political philosophy. As Locke argued in his *Essays on the Laws of Nature*, materials from 1664 he most likely taught at Oxford, if Hobbes were right and individual self-interest were indeed the foundation of the law of nature, society would have been impossible for it would have lacked the trust (*fides*) that forms the bond of society (*societatis vinculum*).[110] In the *Second Treatise*, the constitutive importance of trust for political society became a key feature of Locke's argument concerning both the origin of society and the rightful nature of governement.[111]

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in Emily Nacol, "The Risks of Political Authority: Trust, Knowledge and Political Agency in Locke's Second Treatise," *Political Studies Review* 59 (2011).

109 John Locke in a letter addressed to "Tom" [probably Thomas Westrowe], dated 20 October 1659. Reprinted in John Locke, *Political Writings* (Indianapolis: Hackett, 2003), 140. Underlying Locke's thought, and indeed the entire philosophical tradition in which he stands, faith (*fides*) stands in epistemic contrast to knowledge (*cognitio*). Whereas we come to discover what we know, we make what we believe in according to certain external standards. See also Dunn, "The concept of 'trust' in the politics of John Locke," 286.

110 Locke, *Essays on the Law of Nature*, 133.

111 Dunn, "The concept of 'trust' in the politics of John Locke," 287. Ian Shapiro, "Locke's Democratic Theory," in *John Locke, Two Treatises of Government and A Letter Concerning Toleration* (New Haven: Yale University Press, 2003), 329. Where the *Two Treatises of Government* gave a political account of the centrality of trust in civil society,

As Locke keenly recognized, trust was fragile. The Fall had brought not only the disintegration of the original community of man but also introduced the threat of distrust that came from the breaking of promises. (ST 128) Persisten violations of promises and oaths, if left unchecked, sooner or later implied the collapse of society. If this was true between citizens, the effects were even more pronounced in the relationship between the people and its ministers. "[T]he abuse of that power and trust which is in the lawmaker's hands produces greater and more unavoidable mischiefs than anything else to mankind." (ST 142) The result of dissolution was for Locke at the same time not the wholesale implosion of all civil government so feared by Hobbes but merely the replacement of one ruler by another. If government was a relation of trust between citizens that resulted in the granting of entrusted political authority, the trustworthiness both of citizens as well as that of rulers mattered greatly. As Hobbes pithily put it, "Where's no trust, there can be no Contract."[112] Strictly speaking, Hobbes explained, the social contract was thus not so much a contract as a covenant, reliant on trust and promises that extend into the future. "In all contracts where there is trust, the promise of him that is trusted, is called a COVENANT."[113] In Locke, the point acquired a vertical dimension whereby trust not only bound the members to each other but was also the proper relation between a people

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the *Essay* provided an epistemological normative grounding. "That Men should keep the Compacts, is certainly a great and undeniable Rule of Morality." Locke, *Essay Concerning Human Understanding*, 1.3.5.

112 Thomas Hobbes, *De Cive*, 8.3.

113 Thomas Hobbes, *Elements of Law*, I.15.8-9. See also Hobbes, *De Cive*, 2.9. As Deborah Baumgold recently summarized, "The Hobbesian covenant institutionalizes a trust relationship in which both sides have a consensually defined part to play." Deborah Baumgold, "'Trust' in Hobbes's Political Thought," *Political Theory* 41, no. 6 (2013), 838-55, 839. On this point see also Danielle Allen, *Talking to Strangers. Anxieties of Citizenship Since Brown v. Board of Education* (Chicago: University of Chicago Press, 2004).

and its government. If there was a necessary element of trust among those who would come to be bound together by society, something similar was true for the relation between the people and the government (ST 111, 136, 142, 149, 171). Citizens not only entered a covenant with each other, Locke insisted, but also placed their trust in the ruler. Trust was in this double sense – among citizens and between the citizenry and the ruler – the bond of society, the *vinculum societatis*.

The term *vinculum* had of course a distinctly Christian meaning, referring to the bond of the Church and Christendom (*Corpus Christianum*). But faced with the obstacles of religious difference and holding out the hope for religious toleration, Locke came to reinterpret and secularize the *vinculum*, giving it a distinctly civil meaning.[114] As Teresa Bejan has recently noted, "as the limits of his toleration expanded outward, Locke defined this requisite similarity, the civil *vinculum*, as a matter of 'peacableness' and 'trust'."[115] The term once used to capture the unity of the Church had become on Locke's account the bond of society (*vinculum societatis*). Reinterpreted as a matter of trust, and no longer simply the unity of the Church, faith in the trustworthiness of one's rulers and fellow citizens was what truly held society together. But if the vinculum was in this sense translated into civic trust (*fides*), this still demanded an inner attitude of trustworthiness and faith (*fides*). At the root of man's ability to exist in society, enter contracts, and make promises was a notion of *fides* that is ambiguously suspended between its Christian roots and the promises of civic peace and toleration. In the *Two Tracts*, Locke even explicitly

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114 I owe this subtle insight to Teresa Bejan, *Mere Civility. Toleration and its Limits in Early Modern England and America* (Ph.D. dissertation, Yale University 2013), here: 324. More generally, see 321-326. See also her Teresa M. Bejan, "Locke on Toleration, (In)civility, and the Quest for Concord," *History of Political Thought* (forthcoming).

115 Bejan, *Mere Civility*, 324. More generally, see 321-326.

argued that when we enter into a compact or covenant with men we also do so simultaneously with God.[116] As he explained in his *Essays on the Law of Nature*, *fides* has two meanings. First, it referred to the virtue of keeping promises as opposed to the vice of untrustworthiness.[117] But, secondly, *fides* must be distinguished from knowledge or *cognitio* and in this sense faith required belief.[118] This ambiguity remained central to Locke's thought.

As Bejan has pointed out, it also meant that for Locke the untrustworthy had to appear as fundamentally intolerable, just as the intolerable were fundamentally untrustworthy.[119] As a result, according to Bejan, "Locke suggested that untrustworthiness was not only a necessary, but also a sufficient condition of 'persecution' – or rather legitimate magisterial concern and interference."[120] Those singled out in the *Letter Concerning Toleration* as beyond the reach of toleration were groups Locke considered to be fundamentally untrustworthy, namely those behaving in an "arrogant, ungovernable, and injurious" manner that threatened to undermine societal trust.[121] Locke believed these attributes to be disproportionally found among three groups in particular: atheists, Catholics, and the intolerant themselves.[122] It was fear of

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116 John Locke, *Two Tracts*, 225.

117 John Locke, "Essays on the Law of Nature VIII [1664]," in *Political Essays*, 126.

118 Dunn, "The concept of 'trust' in the politics of John Locke," 286.

119 Bejan, *Mere Civility*, 326. "For Locke, the intolerable and the untrustworthy were the same."

120 Bejan, *Mere Civility*, 328.

121 Locke, "A Letter Concerning Toleration," 61.

122 Based on Locke's deep worries over covetousness and a number of remarks one may want to add Jews to this list. The flipside of Lockean toleration was in any case that "no opinions contrary to human society, or to those moral rules which are necessary to the preservation of civil society, are to be tolerated by the magistrate." (Locke, "A Letter

untrustworthiness that motivated Locke's unwillingness to extend his generous policy of toleration to these groups. In particular atheists posed a profound danger on his account. As Locke insisted in the *Letter Concerning Toleration* – unpersuasive as it may seem today – "Promises [*fides*], Covenants [*pactum*], and Oaths [*jus jurandum*], which are the Bonds of Humane Society [*societatis humanae vincula*], can have no hold upon an Atheist. The taking away of God, though but even in thought, dissolves all."[123] The keeping of promises was an obligation derived from God. Without God, promises could not be counted on, and without the fulfillment of promises human society would inevitably collapse.[124]

2.6 The Great Recoinage

The keeping of promises and the centrality of public faith became the central anchor for Locke's argument in his monetary writings during the Coinage Crisis. After the Glorious Revolution, Locke left his Dutch exile to return to England. As he arrived, post-revolutionary politics had retriggered a debate on interest and coinage resembling that of the late 1660s which had formed the background to Locke's first manuscript on

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Concerning Toleration," 49) Locke was aware of how provocative his stance was to those excluded. The above lines were consequently not printed in the first edition of the *Letter* published at York in 1788. (Locke, "A Letter Concerning Toleration," 49n126)

123 Locke, "A Letter Concerning Toleration," 52-53. A more literal translation of Locke's earlier Latin version of the Letter would be: "For an atheist neither faith (*fides*), nor agreement (*pactum*), nor oaths (*jus jurandum*), which are the bonds of human society (*societatis humanae vincula*), can be stable and sacred: so that, if God is once taken away, even simply in opinion, all these collapse with him." "Athei enim nec fides, nec pactum, nec jus jurandum aliquod stabile et sanctum esse potest, quae sunt societatis humanae vincula; adeo ut Deo vel ipsa opinione sublato haec omnia corruant." John Locke, "Epistola de Tolerantia," in John Locke, *A Letter Concerning Toleration. Latin and English Texts Revised and Edited with Variants and an Introduction*, ed. Mario Montuori (Springer, 1963), 92.

124 Locke, *Essays on the Law of Nature*, 119.

money. Keen to once more counter demands for lowering the legal rate of interest, Locke returned to his earlier manuscript, added new material, and published the resulting text anonymously in 1691.[125] Already the opening section drew a direct link between money and the politics of trust. "Faith and Truth," Locke explained, "especially in all Occasions of attesting it upon the solemn Appeal to Heaven by an Oath, is the great Bond of Society: This it becomes the Wisdom of Magistrates carefully to support, and render as sacred and awful in the Minds of the People as they can." (SC 213) As a result, "It will always be worthy the Care and Consideration of Law-makers, to keep up the Opinion of an Oath High and Sacred, as it ought to be, in the Minds of the People." (SC 214) This was a programmatic statement.

During the Nine Years' War (1688-97) that followed the Glorious Revolution, English money suffered from widespread debasement. Most visibly this expressed itself through clipped or broadened silver coins consisting of less silver. The silver thus won could be sold abroad or even profitably returned to the Royal Mint for recoinage into new coins. As a result, the weight of coins in circulation was steadily reduced. The logic behind this flight of silver was a simple but powerful one. The metal price for silver contained in a coin exceeded the coin's nominal value. It had become more profitable to melt down the silver and sell it as bullion than use it as currency. Alternatively, one could

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125 John Locke, *Some Considerations of the Consequences of the Lowering of Interest and Raising the Value of Money* (London: 1691). Locke had returned to the earlier manuscript on at least two other occasions before, once shortly after writing it in the late 1660s, then once more in 1674. Kelly, "General Introduction," 3-4. As Locke explained in the short dedication "to a Member of Parliament," most certainly Sir John Somers, while the sections on interest had been accumulated "a great deal above so many Years," those concerning coinage have, "as you know, been put into Writing above Twelve Months since." (SC 209) Already in 1690, Locke and Somers had begun a correspondence about coinage and the evil of clipping. See William Lewis Sachse, *Lord Somers: A Political Portrait* (Manchester: Manchester University Press, 1975), 106.

shave off some of the coin's silver whilst attempting to use the clipped coin for payment at the old nominal value. As a result most coins in circulation were severely clipped, and by the middle of the 1690s often contained less than half of the silver they had originally been minted with.[126]

Coin clipping became such a widespread concern that a parliamentary committee was appointed in early 1695.[127] As Parliament began its deliberations, expert advice and counsel flooded in. The Secretary to the Treasury, William Lowndes, was tasked with drafting a recommendation, as were numerous external observers. The one thing all could agree on was that the shortage of silver had become so grave an issue and clipping such a severe threat that a recoinage of one kind or another would be required. Lowndes's recommendation, as laid out in his report that appeared in the fall of 1695, was for the Treasury to recoin at a devalued rate – in other words raising the nominal value of coins

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126 This unfortunate constellation was in itself not new. It had marked English seventeenth-century money as a chronic condition. Ever since the time of Elizabeth I, the price of silver had rarely fallen much below the critical value and frequently rose above it. Recent estimates suggest that already by the 1680s ten to twenty percent of silver was missing from English coins in circulation. In the years after the Glorious Revolution the trend exacerbated as the spread between the price of silver and the nominal value of English coins began to diverge even more than had been the case over the previous decades. By 1695, the market price of silver reached 77d an ounce, implying that a full-weight silver coin would fetch almost 25 percent more melted down as silver than it would do based on its stamp. Desmedt, "Les fondements monétaires de la 'révolution financière' anglaise," 325. Carey, "John Locke's philosophy of money," 58. Nicholas Mayhew, *Sterling: The Rise and Fall of a Currency* (London: Penguin, 1999), 97.

127 Locke's friend John Evelyn warned, if clipping could not be put to end, "all Pacts and Covenants, Bargains, Obligations, Estates, Rents, Goods, Credit and Correspondences whatsoever (becoming dubious and uncertain) must sink and be at an end." John Evelyn, *Numismata: A Discourse of Medals, Antient and Modern* (London: Printed for Benj. Tooke, 1697), ch. VII, 221-233. Locke personally adamantly refused to accept clipped coins, rejecting them as not "the lawfull coin" of England. "[I] know not why I should receive half of the value I lent instead of the whole." Locke to Edward Clarke, 25 May 1695. Locke, *Correspondence*, vol. V, Letter no. 1908, 381.

without altering their silver content. As Lowndes demonstrated with extensive use of historical evidence, this was a long-standing practice. It was "a Policy constantly Practised in the mints of England ... to Raise the Value of the Coin in its Extrinsick Denomination from time to time, as Exigence or Occasion required."[128] If the devaluation was sufficient to bring the new nominal price in line with the market price of silver, this would immediately eliminate the disastrous gap between the price of silver and coins' nominal value, and put an end to the profitability of clipping. In March 1695 this would have meant a devaluation of around nine percent but as the situation worsened and the gap between the price of silver and the nominal value of coins widened further, the devaluation necessary to restore parity rose with it. By September 1695 Lowndes recommended a devaluation of twenty percent.[129]

Locke could not have disagreed more strongly. Recoinage at a devalued rate, he argued, was based on a dangerous illusion that threatened to undermine all trust in government. Already in January 1695 he had turned his attention to the coinage controversy by publishing (still anonymously) a pamphlet polemicizing against proposals

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128 William Lowndes, *A Report Containing An Essay for the Amendment of the Silver Coins* (London: Printed by Charles Bill, and the executrix of Thomas Newcomb, 1695), 56. As Nicholas Barbon put it, "Money has its Value from the authority of the government, which makes it currant, and fixes the price of each piece of Metal. ... Money will be of as good Value, to all intents and purposes, when it is coined lighter ... For the authority being the same, the value will be the same." Nicholas Barbon, *A Discourse Concerning Coining the New Money Lighter. in answer to Mr. Lock's Considerations about raising the value of money* (London: 1696), 96. As Lowndes pointed out, underweight coins, many with less than half the worth by weight of the value they represented, had furthermore circulated more or less freely in England for decades.

129 Lowndes, *A Report Containing An Essay for the Amendment of the Silver Coins*, 123. Carey, "John Locke's philosophy of money," 58.

for a devaluation.[130] Due to his political connections and his ongoing advice to leading Whig politicians – in particular Sir John Somers MP, since Shaftesbury's death Locke's political patron – Locke was drawn into the expert discussions and asked, along with a number of other luminaries, to provide expert advice. It was in this context of urgent deliberation about an imminent recoinage with enormous implications that Locke decided to oppose Lowndes's proposal publicly, uncharacteristically publishing his *Further Considerations concerning Raising the Value of Money* under his own name in the hope of influencing both Parliament and the public.[131] For Locke, the benefits of devaluation would amount at the very best to a Pyrrhic victory. Far from putting an end to clipping, devaluation would amount to an official sanctioning of the lower metal content that had become an unfortunate reality through clippings and forgery. More significantly, by raising the nominal value of coins the government would lower itself to the level of the clippers. It would undermine all of its trustworthiness by repeating on a large scale what it had previously condemned as fraud.

Instead, Locke proposed that the government recall all the circulating currency and recoin it at the old silver content, affirming its original value. Only recoinage at the old rate that would restore trust both in the government and in the clipped coins' face

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130 Locke [anon.], *Short Observations on a Printed Paper.* Intituled, *For Encouraging the Coining Silver Money in* England*, and after for keeping it here* (London: Printed for A. and J. Churchill, 1695).

131 Throughout the fall of 1695 Locke was in close contact with Somers and by late September Locke had been able to obtain an abstract of Lowndes's report through Somers. When Lowndes's report was distributed to the Lords of the council on November 16, 1695, Somers immediately shared it with Locke who, however, seems to have had already received a copy from Lowndes himself. Locke, *Correspondence*, vol. V, Letter 1949 (24 Sept. 1695); Letter 1964 (c.15 Nov 1695). See also the editorial note in Locke, *Correspondence*, vol. V, 461.

value and ban underweight coins from circulation.[132] Anyone found clipping or counterfeiting the new coins would have to pay and no punishment could be too severe.[133] For Locke, a pound sterling was and had to remain neither more nor less than 3 ounces, 17 pennyweight, and 10 grains of sterling silver.[134] To be sure this would produce fewer coins but once trust in the monetary and political system was regained hoarded unclipped coins would return back into circulation.[135]

For Locke, the issue at stake in the Coinage Crisis was never just the material shortage of silver but the erosion of trust, both between citizens and toward the government. It was precisely because of the fragility of the post-revolutionary order that Locke was so concerned about a collapse of societal trust and insisted so vehemently on

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132 Locke knew that his account contradicted much of the reality of clipped money. As he admitted in *Further Considerations*, "our clip'd Money retains amongst the People (who know not how to count but by Current Money) a part of its legal value, whilst it passes for the satisfaction of legal Contracts, as if it were Lawful Money." (FC 469) This was a political theory, driven by certain philosophical and political commitments, not a factual account of practice.

133 Carl Wennerlind in particular has emphasized the reliance on capital punishment in defending the post-Recoinage English monetary system from its enemies within. Carl Wennerlind, *Casualties of Credit: The English Financial Revolution, 1620-1720* (Cambridge MA: Harvard University Press, 2011), 123-157.

134 Feavearyear, *The Pound Sterling*, 124.

135 Locke, it is important to recognize, did not think the amount of money in circulation is irrelevant. He was after all a crucial contributor to what has come to be known as the quantity theory of money. "Indeed I grant," he admitted in *Some Considerations*, "it would be well for *England*, and I wish it were so, that the plenty of Money were so great amongst us, that every Man could borrow as much as he could use in Trade, for Four *per Cent*." (SC 297) And in as far as a greater circulation of money meant lower interest rates, "I grant low *Interest*, where all Men consent to it, is an advantage to Trade." (SC 288) In fact, Locke's argument against the reduction of interest was amongst other reasons based on his fear "That there would be less Money left in the Country to drive the Trade." (SC 215; see also SC 221) In the context of the Coinage Crisis he similarly seems to have believed that the amount of hoarded unclipped coins that would return into circulation would outweigh the reduction of currently circulating coins.

tying the mixed mode of money to metal. At numerous points throughout his three essays on coinage Locke brings up this fear that the erosion of the monetary standard – through clipping but even more so through a potential devaluation – would lead to fatal "confusion" and an implosion of societal trust.[136] If clipping could not be stopped and clipped coins continued to circulate, Locke wrote in a characteristic passage, "'tis no wonder if the price and value of things be confounded and uncertain, when the Measure it self is lost." (FC 430) "All must break in Pieces, and run to Confusion." (SC 213) The coinage crisis risked exposing money and government as both suspended on a fragile thread of trust.

The sanctity of the monetary standard aligned for Locke furthermore with the protection of property. At stake in both cases was nothing less than the trustworthiness of all contracts and, with it, governmental trust. Money, defined as silver and measured by weight, was property according to Locke and as he had argued both in the *Second Treatise* and his *Letter concerning Toleration*, it was a governmental duty to secure property, just as tampering with property and contracts was always an abuse of governmental power.[137] Applied to recoinage this meant that, since contracts had been

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136 SC 213, 231, 336; FC 418, 463, 465, 466, 467. See also John Locke, "Short Observations on a Printed Paper [1695]," in John Locke, *Locke on Money* [1695], 2 vols., The Clarendon Edition of the Works of John Locke (Oxford: Clarendon Press, 1991), vol. 2, 357; as well as Locke, "Paper given to Sir William Trumbull," 368; and Locke, "Propositions sent to the Lord Justices," 376, 377.

137 "Civil Interests," Locke enumerated in the *Letter Concerning Toleration*, "I call Life, Liberty, Health, and Indolency of Body; and the Possession of outward Things, such as Money, Lands, Houses, Furniture, and the like." (Locke, "A Letter Concerning Toleration," 12) It is "the Duty of the Civil Magistrate," he explained, "by the impartial Execution of equal Laws, to secure unto all the People in general, and to every one of his Subjects in particular, the just Possession of these things belonging to this Life." (Locke, "A Letter Concerning Toleration," 12) See also the discussion of property and money in Plato, *Eryxias* 400a.

made on the basis of the publicly announced value of money (in this case the Mint price for silver set under Elizabeth I), no government could rightfully alter the nominal standard of money without violating property. Lowndes's proposals thus amounted from Locke's perspective to a breaking of contracts and consequently a violation of property that would weaken, if not totally destroy public faith.[138] Devaluation was nothing less than "a publick failure of Justice" (FC 416), arbitrarily giving one man's rights and possessions to another. Instead, Locke insisted, "the Standard, once thus settled, should be Inviolably and Immutably kept to perpetuity." (SC 329) The reason why the monetary standard should not be changed, he summarized succinctly, "is this: because the publick Authority is Guarantee for the performance of all legal Contracts." (FC 415) After the rate was set and pledged public faith demanded that no government should be able to alter the standard of the mint under any pretext whatsoever.[139]

But a further worry weighed heavily on Locke's mind in opposing any alteration of the monetary standard: the advancement of overseas trade and colonial expansion. Like his political philosophy in general, Locke's account of money must be seen in the context of an emerging commercial order and attendant justifications of colonial trade and settlement. To appreciate Locke's position in the recoinage debate it is thus important to keep in view the international dimension of his political thought, in particular as it

[138] All creditors, Locke explained, would be "defrauded" by 20 percent of their loans. This was particularly tragic for those who had entrusted their savings to the post-revolutionary Whig state by investing in the *Million Lottery* or the Bank of England. (FC 417)

[139] "The Royal Authority gives the stamp; the Law allows and confirms the denomination: And both together give, as it were, the publick faith, as a security, that Sums of Money contracted for under such denominations, shall be of such a value, that is, shall have in them so much Silver." (SC 312)

relates to his knowledge of and involvement with colonial trade.[140] As Locke explained, anyone engaged in overseas trade would necessarily continue to keep their books in metal value which would after a devaluation no longer align with the coins' nominal value. The government could alter the nominal value of its coins domestically but it had to accept as given the world prices of bullion. It was silver and gold that constituted the cosmopolitan currency of overseas trade. "In any country that hath Commerce with the rest of the World," he noted, "it is almost impossible now to be without the use of Silver Coin." (SC 265) Even more, the pound sterling – besides the Spanish *dolar* – had grown into the preferred embodiment of bullion. Tied to both metal as well as expanding English trade, state, and empire Locke explained that English silver money reconciled the benefits of bullion with those of state-issued currency. But if it was the case that "our Coin beyond Sea, is valued no otherwise than according to the quantity of Silver it has in it" (SC 322), it mattered crucially not to tamper with the silver content.

Besides the domestic political concerns about the trust of the government, there was thus in addition an international dimension of trust. Locke had at least one eye firmly fixed on the international reputation of the pound sterling. The value of coins, Locke explained, was set by its metal value as established in the international markets. The government could alter the nominal value domestically but abroad the coin's nominal stamp was largely irrelevant. It "neither does nor can take away any of the intrinsic value of the Silver."[141] In altering the nominal value governments thus cut themselves off from

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140 For an excellent overview, see David Armitage, "John Locke's International Thought," in *British International Thinkers from Hobbes to Namier*, ed. I. Hall and L. Hill (Basingstoke: Palgrave Macmillan, 2009).

141 John Locke, "Short Observations on a Printed Paper [1695]," in Locke, *Locke on Money*, vol. 2, 346. See also David Wootton, "Introduction," in *John Locke, Political*

international markets in bullion and introduced a gap between the international and domestic value of coins. This not only meant that the domestic accounts of anyone engaged in overseas trade would be "puzzled" but it also threatened international trust in the pound sterling as the preferred currency of global trade.[142] Locke was keenly aware of these pressures and his currency writings flow directly from his intimate concern with colonial trade and the English state's expanding overseas aspirations.[143]

Locke's contrarian advice to Lowndes triggered an enormous flood of pamphlets and appeals. Locke's opponents described his insistence on the metal weight as both "impracticable" and "ridiculous."[144] This explosion of public criticism can ironically itself be traced back to Locke. The recoinage controversy happened to coincide with Locke's successful efforts to end the licensing of the press, which contributed to the enormous flourish of pamphlets, many criticizing Locke's proposal. To the surprise of many, Locke's controversial insistence on metal value and his strict refusal of devaluation carried the day. Somers and other Whigs influenced by Locke worked

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Writings (Indianapolis: Hackett, 2003), 118. "The value of a currency was bound to be set by international trade, and could not be controlled by the government." As Daniel Carey has argued, for Locke "the capacity to regulate the system of value did not really exist at a domestic or internal level but belonged in an external or international space where silver content alone prevailed." Carey, "John Locke's philosophy of money," 63.

142 A devaluation would make necessary "a new Arithmetick to cast up Reckonings, and keep Accounts in." "I fear it will puzzle a better Arithmetician, than most Countrymen are, to tell, without Pen and Ink, how many of the lesser pieces (except the Shillings) however combined, will make just sixteen or seventeen Shillings." (FC 463, 465)

143 Many of Locke's examples in the coinage writings were taken out of a colonial context. To give just one example: "For suppose Ten thousand pounds were sufficient to manage the Trade of Bermudas, and that the first Planters carried over Twenty thousand pound, ..." (SC 217-218).

144 Sir John Somers to Locke, 15 November 1695. Locke, *Correspondence*, vol. V, Letter 1964, 461.

tirelessly in assembling parliamentary support and eventually even won the King over to their cause. The Act passed Parliament in January 1696 and the date for the Recoinage, an enterprise of enormous scope, was set first for May, than moved back to June.[145] In the summer of 1696, clipped, broadened, or worn coins were removed from circulation, replaced by silver coins newly minted at the old value.[146]

2.7 Conclusion

In this chapter I have proposed a reading of Locke's political theory of money that frames his argument in relation both to the Aristotelian tradition as well as contemporaneous conceptions of money as a social contract. Offering a close reading of Locke's monetary writings and their different philosophical contexts, I have suggested how Locke's initially perplexing and apparently paradoxical positions can be reconciled with one another. Though building on premises similar to those of Aristotle, in the

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[145] Though it is undisputed that Locke's advice won out, there is disagreement how far the implementation deviated from his specific procedural recommendations. The standard view, with deep roots in British Whig historiography, has long been that his recommendations were straightforwardly "adopted as government policy." J.R. Milton, "Locke's life and times," in *The Cambridge Companion to Locke*, ed. Vere Chappell (Cambridge: Cambridge University Press, 1994), 20-21. But several twists need to be added. Though the government was partial to Locke's recommendations, parts of Parliament were more hesitant. As a result, "key provisions of Locke's proposal were not followed in the Recoinage, including the fact that the government plan compensated holders of clipped coin and allowed for gradual demonetisation of coins, while Locke wanted them to pass immediately only by weight (since the stamped 'face' value no longer corresponded to the actual silver content)." Carey, "John Locke's philosophy of money," 57n3. But irrespectively of whether the Recoinage was executed exactly as Locke had advised or not, his insistence on unalterable metal value prevailed and rightly came to be associated with Locke's name.

[146] See Appendix for an illustration of the enormous effect of Recoinage. As can be seen, Locke's hopes that hoarded unclipped coins that reentered circulation would make up for the reduction in silver were disappointed.

context of seventeenth-century debates about natural law, property, and colonial trade Locke's argument derived radically different conclusions from them. Recognition of the nominalist origins of money did not translate into an embrace of malleability of the monetary standard but gave rise to worries about fragility. A concern with trust drove Locke not into the arms of an account of currency as a political institution of civic reciprocity, but instead motivated an uncompromising embrace of the inalterable "intrinsick value" of metal money fit for international trade and expansion. Analogies between money and the social contract did not serve to stress the political bond of money but motivated the establishment of the monetary contract as a pre-political, tacit bond between all humans who thereby agreed to accept material inequalities.

As I have highlighted throughout this chapter, questions of trust and faith – trust in our fellow human beings, trust in governments, but also faith in an even higher authority – are central to Locke's political philosophy.[147] Money is on Locke's account a central institution contributing to or undermining this trust. It was precisely because the 1690s were an age of crisis and instability that Locke insisted so vehemently on tying the "mixed mode" of money to metal. He saw in the monetary instability and confusion of coin clipping the outlines of a broader political crisis that threatened the very preconditions of a stable post-revolutionary political order. Confronted with the vision of money as a malleable human invention based on convention, Locke's response was to check the nominalist reliance on opinion by firmly tying it to a metallist substance. In Locke's account, the insistence on nominalism and metalism were not opposed to each other but went hand in hand.

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[147] Laslett, "Introduction," 22.

Locke's position constituted a powerful break with previous thinking about money. For many contemporaries and subsequent generations, Locke's writings on coinage were among his most important and substantial contributions to political thought and practice.[148] Locke's monetary thought thus constitutes an important exception to Duncan Bell's otherwise apt observation that Locke's political thought largely failed to excite prior to its mid-twentieth century liberal refashioning.[149] Their enormous influence afforded them a special place among Locke's contributions to the art of statecraft, a contribution that often outshone any of the arguments in either of the *Two Treatises of Government*. This centrality was reflected in the very structure of his collected works. All eighteenth- and nineteenth-century editions of Locke's works prominently included his monetary writings, sometimes even before the *Two Treatises*.[150]

Excavating Locke's reasoning in his monetary writings and recognizing their enormous influence brings to light a profound irony. The very success of Locke's

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148 Locke's nineteenth-century biographer Lord King (himself a man with decided views on currency) still heavily emphasized the political significance of Locke's monetary thought. Lord King, *The Life and Letters of John Locke, with extracts from his correspondence, journals and common-place books* (London: H. Colburn, 1829), 240-245. In his *History of England*, Macaulay remarked of Locke's writings on currency that "it may be doubted whether in any of his writings, even in those ingenious and deeply meditated chapters on language which form perhaps the most valuable part of the *Essay on the Human Understanding*, the force of his mind appears more conspicuously." Thomas Babington Macaulay, *The History of England from the Accession of James the Second* [1848], A new edition in two volumes (London: Longmans, Green, Reader, & Dyer, 1871), vol. 2, 547.

149 Duncan Bell, "What Is Liberalism?," *Political Theory* 42, no. 6 (2014), 682-715.

150 John Locke, *The works of John Locke Esq.* Three volumes (London: printed for John Churchill, 1714). John Locke, *Works of John Locke in Nine Volumes,* ninth edition (London: Printed for T. Longman, B. Law and Son [etc.], 1794). By 1824, in its twelfth edition, the fourth volume contained, first, the three coinage essays and only then the *Two Treatises*. John Locke, *Works of John Locke in Nine Volumes*, twelfth edition (London: Printed for C. and J. Rivington [etc.], 1824).

insistence on the unalterability of metal money's intrinsic value rendered almost invisible and unintelligible the political nature of his argument. That even Locke's monetary writings have fallen victim to this elision is an ironic vindication of their persuasive force. Instead of accepting Locke's seeming naturalization of money at face value, I have argued that his intervention is best read as a political one, even where it wants to remove certain political options. Locke introduced a politics of depoliticized money that obscured its own political nature. Part of this was of course precisely Locke's intention. But what was lost in the process was an appreciation for the fact that the depoliticizing conclusions of Locke's account had themselves been derived from a *political* theory of money, one that would have admitted of a number of different solutions.

Today, the terms of Locke's political philosophy have become the common currency of liberal political thought.[151] Notions of rights, consent, property, liberty, equality, and toleration provide the conceptual building blocks of much of Anglophone political liberalism.[152] But Locke's monetary writings are missing from the blue-clad Cambridge canon as well as from other collections of his political writings.[153] Not least

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[151] As Sheldon Wolin remarked in *Politics and Vision*, "[t]o the extent that modern liberalism can be said to be inspired by any one writer, Locke is undoubtedly the leading candidate." Sheldon Wolin, *Politics and Vision: Continuity and Innovation in Western Political Thought* (Boston: Little, Brown, and Company, 1960), 293.

[152] James Tully, *An Approach to Political Philosophy. Locke in Contexts* (Cambridge: Cambridge University Press, 1993), 2.

[153] As Mark Goldie notes in his editorial introduction to Locke's *Political Essays*, "constraints of space forced the exclusion of some important texts with bearings on politics, church government and human conduct. … One significant victim … is *Some Consequences that are Like to Follow upon Lessening of Interest to 4per cent* (1668), which laid the groundwork for Locke's tracts on money published in the 1690s and casts considerable light on his *economic thought*." John Locke, *Political Essays*, ed. Mark Goldie (Cambridge: Cambridge University Press, 1997), xxxiv. Emphasis added. The monetary essays are also not included in John Locke, *Political Writings*, edited, with

thanks to the effectiveness of Locke's own intervention, money is no longer perceived as a central topic in political theory. Where discussion of money and currency were once central to the canon of political thought since Aristotle, today they have largely been eclipsed from the political field of vision.

In subsequent Whig historiography, Locke's successful insistence on the metal value of coins and the resultant protection of creditors was later often read as having paved the way for the Financial Revolution. Locke's monetary advice became *the* gospel of "sound money" that was seen to have laid the political foundation for the financial strength of the English state after the Glorious Revolution and paved the way for Britain's rise to world power.[154] As I have noted, there is an important truth in these narratives of a radical break in monetary matters effected by Locke. Locke's insistence on the unalterability of metal money led to a wholesale reversal of standard government policy and amounted to a new protection of creditors.

Introduction, by David Wootton (Indianapolis: Hackett, 2003). Part of these editorial decisions can no doubt be explained by the fact that Locke's monetary writings have been available since 1991 in two volumes as part the Clarendon edition of his "economic thought." John Locke, *Locke on Money* [1695], 2 vols., The Clarendon Edition of the Works of John Locke (Oxford: Clarendon Press, 1991).

[154] As Thomas Babington Macaulay put it, had Locke's opponents prevailed, "the evils of a vast confiscation would have been added to all the other evils which afflicted the nation: public credit, still in its tender and sickly infancy, would have been destroyed." Thomas Babington Macaulay, *The History of England from the accession of James II*, in four volumes, with an introduction by Douglas Jerrold (London: J.M. Dent & Sons; New York: E.P. Dutton & Co., 1906 [1848]), vol. 4, ch. XXI, 191. Locke's monetary opinion, so the historian Albert Feavearyear in 1931, "has been looked back to ever since as a sterling example to be kept in mind at any time when there may be a temptation to alter the standard of the Mint." Feavearyear, *The Pound Sterling*, 135. See also Douglass North and Barry Weingast, "Constitutions and Commitment. Evolution of the Institutions Governing Public Choice in 17th century England," *Journal of Economic History* 49, no. 4 (Dec., 1989).

But read through the lens of the Financial Revolution, accounts of Locke's profound break with prior monetary thought too easily skirt over the idiosyncrasies of his specifically political vision. In particular concerning public credit, Locke was always far more ambivalent than the Whig narrative allowed.[155] Public credit was but in its infancy in Locke's time. Its meteoric rise that marked the prospects and anxieties of the eighteenth century would have undoubtedly shocked him.[156] Locke thought opinion and credit far too fickle to reliably carry the enterprise of money and the state. This ambivalence toward credit is well captured by his attitude toward the Bank of England. When the Bank was founded in 1694, Locke's response betrayed a characteristic double play. While he immediately became one of the Bank's founding investors, investing the substantial sum of £500, Locke refused to lend the Bank his voice.[157] His concerns mirrored those that had driven his stance in matters of coinage.

Locke had long been a skeptic concerning plans for the establishment of a national bank, both recognizing the need for one and cautiously warning against its ramifications. His concerns mirrored those that had driven his stance in matters of coinage. He worried about resting the English state's commercial expansion on the

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155 Christine Desan has recently brought together Locke's monetary writings with the novel protection of creditors advanced at the time, most importantly in *The Case of the Bankers*. Desan, *Making Money*, 345-406.

156 Sonnenscher, *Before the Deluge. Public Debt, Inequality, and the Intellectual Origins of the French Revolution.*

157 On June 26, 1694 Locke invested £500 in the bank. *Bank of England Archive*, 10A20/1. The first round of subscriptions for the Bank of England opened for sale on June 21, 1694. Over the course of eight busy days, the Bank successfully sold all its £1,200,000 in subscriptions to 1,268 buyers. Carey, "Locke's Species. Money and Philosophy in the 1690s," 375. See also MS Locke b.3, *Bodleian Library*, Oxford. Locke had long been a skeptic concerning plans for the establishment of a national bank, both recognizing the need for one and cautiously warning against its ramifications.

fragility of opinion and about the effect the bank's monopoly might have on overseas trade.[158] Despite becoming an investor, Locke clearly had reservations about the prospect of public credit. If Locke looked ambivalently on the rise of public credit, his attitude toward paper money was predictably one of straightforward hostility. In an unintended sense his proposals did, however, end up furthering the development of paper money. Locke's recoinage at the old rate did not abate but rather intensified the shortage of coins. Locke's hopes that previously hoarded unclipped coins would make up for the reduction in silver were disappointed. With draconian punishment for clipping, other legal ways had to be found to alleviate the demand for money. To forestall a new wave of coin clipping, tentative experiments with bank notes spread and accelerated. Locke worried about precisely this prospect when pointing out that the fragile state of the coin was forcing people to rely more and more on "hazardous paper-credit" (FC 450). In the next chapter I turn to the moment, almost exactly 100 years later, in February 1797, when paper money and public credit reached their apotheosis in the British suspension of gold and the embrace of fiat paper money.

In turning to the suspension period and its echoes in political thought, I will present a radically different possibility of the politics of money than that offered by Locke. To build on money's nominalist roots and an analogy to the social contract did not have to lead to Locke's conclusions but allowed for a number of widely divergent responses. As I argued in the last chapter, for Aristotle beginning with the nominalist nature of money implied an account that emphasized the role of currency in facilitating

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[158] Locke to John Freke and Edward Clarke, 8 February 1695. Locke, *Correspondence*, vol. V, Letter no. 1845, 264. See also Locke, *Correspondence*, Letter no. 1849. John Locke, *Selected Correspondence from the Clarendon Edition by E. S. de Beer* (Oxford: Oxford University Press, 2002), 197-198, 206-207.

relations of civic reciprocity. As I will discuss in the next chapter with reference to Johann Gottlieb Fichte, the monetary contract does not have to flow from the tacit pre-political contract of all humanity but can also be conceptualized along the lines of an explicitly political social contract that binds citizens to each other and creates bounded political communities of self-government that are closed off commercially. Even accepting Locke's analysis of trust as a constitutive component of money and society similarly does not have to lead to Locke's conclusion. Trust nourishes itself not merely from the keeping of contracts but also from a sense of fairness and equal sacrifice.[159] A social contract that undermines societal trust through its very adherence seizes to be a meaningful contract. Even if trust is the product of kept promises, the constitutive promise of the political compact – even on Locke's own account – is not the preservation of the monetary standard but the well being of the members who were party to the covenant.

Let me conclude by returning to the chapter's second epigraph. In June 1696 shortly after the Recoinage, the Irish philosopher William Molyneux wrote to his friend Locke, praising him profusely for having utterly transformed the way his compatriots thought about money.

> I do as much wonder, that, after what you have published on that subject, there should remain the least doubt with any man, concerning that matter. … I think, you have cleared up the mystery, and made it so plain to all men's capacities, that England will never again fall into the like inconveniencies. Till you writ, we used money as the Indians do their wampompeek: it served us well enough for buying and selling, and we were content, and heeded it no farther; but for the intimate

[159] Allen, *Talking to Strangers*. John Maynard Keynes, *A Tract on Monetary Reform* (London: Macmillan, 1923), 67-68.

> nature, affections, and properties thereof, we did no more understand them than the Indians their shells.[160]

Molyneux celebrated that Locke's vision had won out and that as a result our understanding of money would never be the same. Read through the lens of Locke's political attempt to depoliticize money, there is a profound truth in Molyneux's statement – though even Molyneux may have been surprised at how complete the transformation would come to be. In describing Locke's intervention in monetary matters in terms that mirrored the colonization of America, Molyneux invoked an image that captured Locke's vanguardism in both liberal thought and colonial administration.

Some two hundred and twenty years later, once more in the midst of great European war, reports of another act of colonial discovery threw an unexpected light on Molyneux's indigenous reference. Reviewing an anthropological study for the June 1915 edition of the prestigious *Economic Journal*, a young economist and wartime Treasury official by the name of John Maynard Keynes directed his colleagues' gaze to an island in the Western Pacific. "The recent establishment of British authority in these islands," Keynes explained, "has brought us in contact with a people whose ideas on currency are probably more truly philosophical than those of any other country. Modern practice in regard to gold reserves has a good deal to learn from the more logical practices of the island of Uap."[161] Keynes drew on a recent account by an American anthropologist who described Uap (or Yap) as *The Island of Stone Money*.[162] What attracted Keynes to the

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160 William Molyneux to Locke, 6 June 1696. Locke, *Correspondence*, vol. V, Letter no. 2100, 653.

161 John Maynard Keynes, "The Island of Stone of Money," *The Economic Journal* 25, no. 98 (Jun., 1915), 281.

162 William Henry Furness, *The Island of Stone Money, Uap of the Carolines* (Philadelphia: J. B. Lippincott Company, 1910). William Henry Furness, "The Stone

island was that its use of largely immobile stone wheels as money inverted the presumed centrality of circulating precious metal. Instead, Keynes recognized behind the stone wheels a sophisticated nominalist understanding of money based on credit and trust that had been obscured by Locke's insistence on the intrinsic value of gold and silver. In the fourth chapter I expand on Keynes's re-discovery by turning to his political theory of money and his attempt to rehabilitate the political significance of currency. To invert Molyneux's assessment, only with the help of the Yapese can we hope to learn again how to see money as clearly as the Algonquian peoples had understood their own currency.

Money of Uap, West Caroline Islands," *Transactions of the Department of Archaeology, University of Pennsylvania Museum* 1, no. 1 (1904).

– Chapter Three –

COMPLETING THE SOCIAL CONTRACT
Johann Gottlieb Fichte and the Politics of Paper Money

> The peculiarities of a nation are like its language and its currency: they make communication easier, indeed they enable it in the first place.
>
> —Johann Wolfgang Goethe[1]

3.1 Introduction

It was a Saturday afternoon in late February 1797 when an unprecedented request reached King George III. His Prime Minister, William Pitt the Younger, urgently asked that he come into London to attend an emergency Privy Council meeting the following day. This was a first. Even during the most tumultuous phase of the American War of Independence – King George had been ruling since 1760 – there had never arisen the need for an emergency meeting of the kind. This time, however, the specter of financial crisis hovered over the country and threatened to fatally compound the already tense political and military situation in the war against revolutionary France.

Over the previous days reports of attempted landings by French troops had arrived in London. On Wednesday, February 22, more than 1,400 troops packed onto four French ships, led by American republican generals and backed up by Irish insurgents, had landed

1 Johann Wolfgang Goethe to Thomas Carlyle, dated July 20, 1827. Johann Wolfgang Goethe, *Goethes Briefe. Band 4: Briefe der Jahre 1821-1832*, ed. Karl Robert Mandelkow (Hamburg: Christian Wegner, 1962), 236.

near the Welsh port of Fishguard. By the time Pitt called on King George III to rush to London, British troops had already gained the upper hand. However, only bad weather in the Irish Sea, so the rumors went, kept more French troops away from the shores while mutinies had seized large parts of the British fleet. Edmund Burke, writing from his sick bed in Bath, described the seriousness of the situation in frank words: "It is not the invasion of Ireland only that is threatened, but of this Kingdom also."[2] Worst of all, Pitt was slowly running out of the gold so vitally necessary to pay the rebelling troops and stave off any additional French landings.[3] The bleak military outlook and the mounting fiscal constraints were widely discussed in the daily papers, stirring up a climate of profound uncertainty that threatened to set into motion a financial chain reaction of unknown proportion. Reports of a runlet of people rushing to converge their bills of exchange for gold could at any moment easily unleash a mighty current. A massive run on the Bank of England's dwindling gold reserves suddenly seemed more than a distant theoretical possibility.

On the evening of Sunday, February 26, after long hours of deliberation in the Privy Council, the government issued a dramatic proclamation to address the situation. The content was breathtaking. "Too delicate a subject to anticipate," as one Monday paper put it on its front page.[4] The Bank of England had suspended the convertibility of

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2 Edmund Burke to French Laurence, dated 1 March 1797, in Edmund Burke, *The Correspondence of Edmund Burke, Vol. IX, May 1796-July 1797*, ed. R.B. McDowell (Cambridge and Chicago: Cambridge University Press and Chicago University Press, 1970), 264.

3 Although Pitt had managed to win the previous summer's general election, the financial pressures of the war weighed heavily on his government. Richard Bourke, *Empire and Revolution: The Political Life of Edmund Burke* (Princeton: Princeton University Press, 2015), 908.

4 *The Morning Chronicle*, London (Monday, February 27, 1797), 1.

paper into gold. Circulating promissory notes would no longer constitute a claim to gold, having become pure fiat money overnight. The pound, still in name referring to the weight measure of silver, had become a piece of paper backed only by the word of the state.

The weekend marked the dramatic opening of a now largely forgotten episode in European monetary affairs that would last for a full twenty-four years, separating the metal monies of the eighteenth century from the gold standard of the nineteenth century.[5] In between, from 1797 till 1821, Britain experimented with the most advanced monetary practice of pure fiat money – and with it the politics of modern central banking.[6] Both challenged and changed the nature and role of the state. As I show in this chapter, political thinkers at the time keenly perceived these changes and sought to capture the new possibilities of state and money. Despite their divergent assessments of these possibilities, all of of these observers self-consciously perceived themselves to be standing on the proverbial threshold of modernity and shared an appreciation for the changes brought on by fiat money.

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In the first two chapters I reconstructed two seminal accounts of the politics of money that both treated currency as conventional in nature and constitutive in its political

5 Since Sir Isaac Newton (then Master of the Mint) fixed in 1717 the price of gold to silver at a slightly overvalued rate of £4.25 per ounce of silver, Britain had slid from an official bi-metallic standard toward a de facto reliance on gold.

6 Subsequently the severity of crisis in 1797 would be actively repressed. But not entirely. Herman Melville, for example, placed the tale of the Royal Navy sailor Billy Budd in the year 1797: "The year 1797, the year of this narrative, belongs to a period which, as every thinker now feels, involved a Crisis for Christendom not exceeded in its undetermined momentousness at the time by any other era whereof there is record." Herman Melville, *Billy Budd* (London: Constable & Co., 1924), preface.

significance – albeit with crucially divergent conclusions. In Aristotle's influential account, *nomisma* emerged ambivalently as an essential institution of civic reciprocity in the ancient polis as well as, possibly tragically, the medium of unnatural accumulation. In Locke's proto-liberal account of money, coinage was instead presented as an essential pillar of societal trust that guaranteed the stability of the early-modern state just as the state served as the harsh guarantor of the inviolability of metal money. In reconstructing Locke's argument I detected and emphasized the roots of what I take to be a key paradox of all modern liberal political theories of money: namely the political and conventional nature of money that is enforced by the state but at the same time shielded against direct political interference in an attempt to establish money as somehow beyond politics. If my reading of Aristotle's account of *nomisma* brought to the fore an ambivalence between currency's role as a political institution and a tool of accumulation, my reading of Locke compounded this ambivalence by coupling it to a distinctively liberal paradox of money's self-effacing political nature. The British suspension period from 1797 till 1821 reveals a further dynamic that altered the way in which currency and state could be seen to bind people to each other over time.

The suspension of gold not only became a constitutive event for all subsequent monetary thought but the experience was also immediately perceived by observers as furnishing the outlines of an unfinished project of philosophical and political modernity.[7]

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[7] The phrase is Habermas's, taken from his 1980 Adorno Lectures in Frankfurt. Jürgen Habermas, "Modernity: An Unfinished Project," in *Habermas and the Unfinished Project of Modernity. Critical Essays on The Philosophical Discourse of Modernity*, ed. Seyla Benhabib and Maurizio Passerin d'Entrèves (Cambridge MA: The MIT Press, 1997), 38-55. Habermas specifically links "the invention of modernity" to the Romantics. "Around 1800, however, a group of young writers opposed this usage by setting the classical in opposition to the romantic, envisioning an idealized medieval period as their

The decades around 1800 were a period of great social and intellectual upheaval that have often been described as a portal to modernity and that witnessed some of the most productive years in the history of philosophy.[8] Political and philosophical revolutions were closely entwined in the minds of many participants. The pivot years around 1800 dealt with the political and intellectual legacy of the French Revolution and the rise of Napoleon, they saw the Prussian reforms and the Vienna Congress. But to a vastly neglected extent these were also years of extraordinary and unprecedented monetary revolutions – a fact that weighed heavily on the minds of contemporaries, be they philosophers, statesmen, or ordinary workers.

If currency in the form of coinage was considered a constitutive institution of both the ancient polis and the early-modern state, the nexus of politics and money both intensified and transmogrified in the course of the eighteenth century. As Michael Sonenscher has shown in dazzling detail, much of eighteenth-century political thought was marked by the spectacular rise of public credit that appeared as a predicament of

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own normative past. This romantic consciousness also showed the distinctive features of a new beginning, detaching itself from what it supposed it was leaving behind. … With the close of the eighteenth century a new, general historical consciousness arose that, in the end, seized even philosophy itself. Hegel is explicit in identifying the 'break' that the French Revolution and the Enlightenment signified for the more thoughtful of his contemporaries." Jürgen Habermas, "Conceptions of Modernity. A Look Back at Two Traditions," in *The Postnational Constellation. Political Essays*, translated, edited and with an introduction by Max Pensky (Cambridge MA: The MIT Press, 2001), 131.

[8] Eckart Förster has most recently chronicles these years from Kant's critical turn to the development of Hegel's system. Eckart Förster, *The Twenty-Five Years of Philosophy: A Systematic Reconstruction*, trans. Brady Bowman (Cambridge MA: Harvard University Press, 2012). Behind the focus on the decades around 1800 stands an extraordinary historiographical and philosophical convergence in twentieth-century postwar thought. Consider only the way in which Jürgen Habermas (*Structural Transformation of the Public Sphere*), Reinhart Koselleck (*Critique and Crisis*), and Michel Foucault (*The Order of Things*) have all productively employed the period around 1800 as an intellectual pivot for their thought.

overwhelming proportions.[9] After all, in the course of a single century British public debt had exploded from little more than one million pounds in 1694 to more than half a billion pounds by 1800, approximately twice the size of national income.[10] Expanding public credit, the spectacular bursting of the South Sea Bubble in 1720, and the rapid spread of private banking operations in the second half of the century gave rise to an anxious discourse concerning the fictitious nature of credit.[11] Skepticism toward modern public finance came in various shades, ranging from Rousseau's admonitions in his *Considerations on the Government of Poland* that he could see nothing good coming from modern public credit to Kant's strictures against the use of public credit as a war chest to finance standing armies.[12] As Hume famously put it, the very foundation of both virtue and society was now hanging by a thread. "Either the nation must destroy public

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9 Michael Sonenscher, *Before the Deluge: Public Debt, Inequality, and the Intellectual Origins of the French Revolution* (Princeton: Princeton University Press, 2007). The argument was first staked out in a two-part essay: Michael Sonenscher, "The Nation's Debt and the Birth of the Modern Republic," *History of Political Thought* Vol. XVIII, no. 1 and 2 (Spring and Summer 1997). Prussian backwardness could appear from this perspective as an unexpected advantage. As Nakhimovsky and Sonenscher remind their readers, during the American War of Independence, the abbé Mably pinned his last hope on Prussia whose abstention from the world of modern credit would leave it as Europe's last and only bulwark against despotism once a general bankruptcy had devastated the rest of the continent. See Isaac Nakhimovsky, *The Closed Commercial State* (Princeton: Princeton University Press, 2011), 119. Sonenscher, *Before the Deluge*, 251.

10 Nathan Sussman and Yishay Yafeh, "Institutional reforms, financial development and sovereign debt: Britain 1690-1790," *The Journal of Economic History* 66, no. 4 (2004), 906-35.

11 Carl Wennerlind, *Casualties of Credit: The English Financial Revolution, 1620-1720* (Cambridge MA: Harvard University Press, 2011), 197-234.

12 Jean-Jacques Rousseau, "Considerations on the Government of Poland," in *The Social Contract and Other Later Political Writings* (Cambridge: Cambridge University Press, 1997), 225. Immanuel Kant, "Toward Perpetual Peace," in *Toward Perpetual Peace and Other Writings on Politics, Peace, and History*, ed. Pauline Kleingeld (New Haven: Yale University Press, 2006), 92.

credit, or public credit will destroy the nation. It is impossible that they can both subsist."[13]

Such apocalyptic predictions were not mere doomsaying but crystalized in profound debates concerning the relation between commerce, money, and the state in the light of unprecedented – even sublime – historical developments.[14] The stunning advent of public credit since the 1690s was, in J.G.A. Pocock's words, "a momentous intellectual event" in the history of political thought, nothing less than "a sudden and traumatic discovery of historical transformation."[15] Two aspects of Pocock's assessment are particularly striking. First, the credit revolution was on Pocock's account not merely a development of narrow economic significance but a dramatic epistemological revolution

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13 David Hume, "Essay of Public Credit [1752]," in *Political Essays*, ed. Knud Haakonssen (Cambridge: Cambridge University Press, 1994), 166-179. Pocock has read Hume's revulsions against public credit as born out of a concern for the self-generating instability of commercial society. J.G.A. Pocock, "Hume and the American Revolution: The dying thoughts of a North Briton," in *Virtue, Commerce and History: Essays on Political Thought and History, Chiefly in the Eighteenth Century* (Cambridge: Cambridge University Press, 1985), 125-141. Hont has argued in response that Hume's ambivalence derived not from within commercial society or the fictional qualities of credit but its malicious use in pursuit of international power politics. Istvan Hont, "The Rhapsody of Public Debt: David Hume and Voluntary State Bankruptcy," in *Jealousy of Trade* (Cambridge MA: Harvard University Press, 2005), 325-353. On Hume's account of money, see also Loren Gatch, "To Redeem Metal with Paper: David Hume's Philosophy of Money," *Hume Studies* XXII, no. 1 (April 1996), 169-92, esp. 170 and 176.

14 For a reading of Burke's aesthetic theory of the sublime in relation to the contemporary discourse of debt, see Peter De Bolla, "The Discourse of Debt," in *The Sublime: A Reader in British Eighteenth-Century Aesthetic Theory* (Cambridge: Cambridge University Press, 1996), 103-140.

15 J.G.A. Pocock, *Virtue, Commerce and History: Essays on Political Thought and History, Chiefly in the Eighteenth Century* (Cambridge: Cambridge University Press, 1985), 108. See also: "Far more than the practice of trade and profit, even at their most speculative, the growth of public credit obliged capitalist society to develop as an ideology something society had never possessed before, the image of a secular and historical future. Without belief in the progress of the arts, the investing mercantile society literally could not maintain itself." (98) As Pocock slyly adds in parenthesis, "The problem of paper currency is acutely relevant here." (113)

that profoundly altered the very concepts of the state, money, and citizenship. Secondly, this epistemological revolution was tied to a new sense of historical temporality and secular change. Both dimensions are well illustrated by the newly asserted role of public credit. By placing value into a permanently postponed future, the pervasiveness of credit altered both the nature of the state and citizens' relation to it. This resonated with a conception of modernity whose temporal horizon now extended into a future tied to promises of the betterment of mankind. Sovereignty, and the imagined community it mirrored, had become inescapably temporalized.

While many detected in the rise of public credit the threat of debt-fuelled military escalation and a dangerous hollowing out of the principle of property, others recognized in it undreamt of possibilities for reconciling republican aspirations with the modern world of commerce. At least since the 1770s, public credit and paper money appeared to some as the missing pieces to complete Rousseau's challenge of how to constitute an internally rational state in a pacified international political economy.[16] As was soon recognized, the innovations in credit and money were a revolutionary project and revolutionary projects would in turn make use of monetary experimentation.[17] The

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16 Louis-Sébastien Mercier (known by contemporaries for his obsessive devotion to Rousseau as "le singe de Jean-Jacques"), for example, argued that only Rousseau's "severe morality" had prevented him from developing a monetary theory and a more optimistic assessment of the possibilities of public credit. Louis-Sébastien Mercier, *De Jean-Jacques Rousseau, considéré comme l'un des premiers auteurs de la révolution* (Paris, 1791), 79-81. See Michael Sonenscher, *Sans-Culottes. An Eighteenth-Century Emblem in the French Revolution* (Princeton: Princeton University Press, 2008), 110-33, here: 129. See also Evelyn L. Forget, *The Social Economics of Jean-Baptiste Say: Markets and Virtue* (London and New York: Routledge, 1999), 188; Michael Sonenscher, "Introduction," in *Emmanuel Joseph Sieyès, Political Writings*, ed. Michael Sonenscher (Indianapolis: Hackett, 2003); and Nakhimovsky, *Closed Commercial State*, 8-9.

17 Several of the American founding fathers were deeply obsessed with monetary politics, dictated as it was from London, but Benjamin Franklin's interest in paper money

French Revolution similarly engulfed an intense debate over the planned securitization of confiscated Church land and the consequent issuance of *assignats*, a debate to which Condorcet, Burke, and Paine all contributed vigorously and viscerally.[18]

If public debt and the credit system became central to eighteenth-century political discourse, the intricacies of money could nonetheless long remain obscure, not least because of the self-effacing political logic of Locke's influential argument. As long as trade was conducted in gold and silver, it was easy simply to oppose credit to real metal value and see promissory notes as mere representations of metal and commodities. As we saw in Locke, this was often accompanied by a strict dismissal of devaluation. Adam Smith, for example, insisted that any violation of the monetary standard by the government was fraudulent.[19] "The debasing of the coin," he explained in his *Lectures on*

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stands out. Already by 1729, a young Franklin, working as a printing apprentice, had become an ardent defender of paper money. Benjamin Franklin, "A Modest Enquiry into the Nature and Necessity of a Paper Currency [1729]," in *The autobiography and other writings on politics, economics, and virtue* (Cambridge: Cambridge University Press, 2004), 144-158. See also James Madison's reply to Hume, in James Madison, "Essay on Money [1791]," in *Selected Writings of James Madison. Edited, with an introduction, by Ralph Ketcham*, ed. Ralph Ketcham (Indianapolis: Hackett, 2006), 4-10.

18 I will return to Burke and the assignats below. Paine's position is most extensively laid out in Thomas Paine, *The decline and fall of the English system of finance* (Paris: Hartley, Adlard and Son, 1796). For Condorcet, who had previously been appointed *Inspecteur Général de la Monnaie* in 1774 under Turgot and served until 1791, see his pamphlet Nicolas de Condorcet, *Sur la proposition d'acquitter la dette, les quittances, ou les assignats* (Paris, 1790). Rebecca Sprang has recently provided an elegant re-reading of the French Revolution through this prism of money. Rebecca L. Spang, *Stuff and Money in the Time of the French Revolution* (Cambridge MA: Harvard University Press, 2015).

19 Adam Smith, "Early Draft of the Wealth of Nations," in *Lectures on Jurisprudence*, ed. R.L. Meek, D.D. Raphael, and P.G. Stein, Glasgow Edition of the Works and Correspondence (Oxford: Clarendon Press, 1978), 370 [LJ (A) vi, 106]; 372 [LJ (A) vi, 114]. See also Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* [1776], ed. R. H. Campbell and A. S. Skinner, 2 vols., Glasgow Edition of the Works and Correspondence (Oxford: Clarendon Press, 1976), 43-44 [Bk. I, ch. iv.11] and 929-932 [V.iii.59-64].

Jurisprudence, "takes away the public faith."[20] But in arriving at Locke's conclusion, Smith further naturalized what had for Locke still been a political argument necessary to stabilize money's conventionality. Instead, Smith now concluded that money's value "is not as Mr. Locke imagines founded on an agreement of men to put it upon them; they have what we may call a naturall value."[21] The old Aristotelian premise of conventionality, still shared by Locke, was thereby lost. Precisely because Locke's political theory of money succeeded, it obscured its own political character. If gold and silver were endowed with an intrinsic natural value that was in turn derived – adapting another key argument developed by Locke – from the value of labor involved in mining the metals, the expansion of fictitious public credit and the spread of promissory notes created a widespread unease that could easily culminate in visions of doom. Much of this dichotomy between the "intrinsic" value of metal money and the fictitious representations in credit and paper would collapse in the wake of the suspension of gold in February 1797.

Having reconstructed in the first two chapters a neglected monetary dimension of the thought of Aristotle and Locke, in this chapter I turn to Johann Gottlieb Fichte and place him in the context of the British introduction of fiat money in 1797. This has a number of intended payoffs. First, recent readers in the history of political thought have persuasively recovered the contours of late eighteenth-century debates on perpetual peace, to which Kant was the most famous contributor.[22] By placing Fichte in the

20 Smith, "Early Draft of the Wealth of Nations," 502 [LJ (B) 242].

21 Smith, "Early Draft of the Wealth of Nations," 370 [LJ (A) vi, 106].

22 See in particular Isaac Nakhimovsky's work, such as Nakhimovsky, *Closed Commercial State* and Isaac Nakhimovsky, Béla Kapossy, and Richard Whatmore, "Introduction," in *Commerce and Perpetual Peace in Enlightenment Thought*, ed. Isaac

neglected context of the politics of money, I want to point to the relation between these debates about war and peace and the rise of credit money.

What comes into view from this perspective is the international politics of money and the way in which questions of gold and credit were intimately tied to considerations of the European state system and the prospects of empire. Just as the settler colonies of the Carolinas had been on Locke's mind, so Ireland and India were on Burke's.[23] The Enlightenment critique of empire had a pronounced monetary dimension that not only included Smith's critical account of colonial trade or Kant's critique of debt-financed standing army but that received a critical new twist in the wake of the suspension period by Fichte's insistence on the logic of domestic fiat money, conceived of as the only guarantee against colonial exploitation and international economic competition. If Locke's defense of the unalterability of metal money reflected the pressures of settler colonialism and the imperial aspirations of the post-revolutionary English state, Fichte's embrace of fiat money reflected the Enlightenment critique of empire and visions of a radically different cosmopolitan project.

In order to place the suspension of gold and the debates that unfolded in its wake into their proper context I will first lay out two influential accounts of the politics of money during the 1790s, namely Burke's critique of the French revolutionary *assignats*

Nakhimovsky, Béla Kapossy, and Richard Whatmore (Cambridge: Cambridge University Press, forthcoming).

23 Jennifer Pitts, "Burke and the Ends of Empire," in *Cambridge Companion to Edmund Burke*, ed. Christopher Insole and David Dwan (Cambridge: Cambridge University Press, 2012), as well as Sankar Muthu, "Conquest, Commerce, and Cosmopolitanism in Enlightenment Political Thought," in *Empire and Modern Political Thought*, ed. Sankar Muthu (Cambridge: Cambridge University Press, 2012), 155-183. For a skeptical response, see also Karuna Mantena, *Alibis of Empire: Henry Maine and the Ends of Liberal Imperialism* (Princeton: Princeton University Press, 2010), 182-188.

(section two) and Kant's brief excursus on money as a formal representation of industriousness, published in the *Metaphysics of Morals* only weeks before the British suspension of gold (section three). Section four then narrates the events of February 1797 and places them in the context of longer-standing debates about debt and monetary reform in the eighteenth century. The discussion culminates in section five which reconstructs Johann Gottlieb Fichte's vision of a closed commercial state based on national fiat money. I conclude by linking Fichte's vision to more familiar counter-proposals of an open commercial state, such as those developed by Georg Wilhelm Friedrich Hegel in his lectures on the *Philosophy of Right* during the last years of the suspension period and published on its eve in 1821.

3.2 Edmund Burke and the French Revolutionary *Assignats*

"Nations are wading deeper and deeper into an ocean of boundless debt," Edmund Burke declared in his *Reflections on the Revolution in France* (1790), echoing a widespread sentiment. "Public debts, what at first were a security to governments by interesting many in the public tranquility, are likely in their excess to become the means of their subversion."[24] Where Rousseau, Hume, Smith, and other cautious critics of public credit had had in mind the way in which it had fuelled eighteenth-century warfare and imperial expansion, Burke's specter was at once more specific and more elusive, namely the French *assignats* that had been issued in 1789 by the National Assembly as a temporary measure to address the pressing need to repay the nation's outstanding credit.

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24 Edmund Burke, "Reflections on the Revolution in France," in *Vol. VIII. The French Revolution, 1790-1794*, ed. L.G. Mitchell and William B. Todd, The Writings and Speeches of Edmund Burke (Oxford: Clarendon Press, 1989), 203-204.

As J.G.A. Pocock argued in his seminal reading of the *Reflections*, Burke's visceral critique of the *assignats* constitutes the key to understanding his broader assessment of the French Revolution.[25] When Burke's eyes turned to the French Revolution," Pocock summarized, "he saw a monstrous paper-money despotism being installed on the ruins of the Church."[26] In pointing to the second half of the *Reflections* as a detailed chronicle of why the French Revolution's experiments in public finance were doomed to failure, Pocock explained that for Burke

> The two groups aiming at this subversion – paper money speculators and irresponsible individuals – had struck first at the Church by destroying its property, then at the nobility and monarchy by the destruction of chivalry; and there was no doubt in Burke's mind, as many passages show, that they would proceed to the subversion of commerce, the third historical foundation of manners.[27]

Burke put it programmatically in a letter from 1793: "The utter destruction of assignats, and the restoration of order in Europe, are one and the same thing."[28]

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[25] J.G.A. Pocock, "Introduction," in *Edmund Burke, Reflections on the Revolution in France*, ed. J.G.A. Pocock (Indianapolis: Hackett, 1987), xxxiv. Despite Pocock's reminder, the centrality of the *assignats* in Burke's critique continues to be marginalized in most accounts of the *Reflections*. "Of the two groups identified as revolutionary in Burke's mind, the speculators in paper money and public debt were perhaps the less durable image." (Ibid.) See, however, Sunil M. Agnani, *Hating Empire Properly: The Two Indies and the Limits of Enlightenment Anticolonialism* (New York: Fordham University Press, 2013) who describes Pocock's emphasis on paper money as "incisive and definitive" (103), as well as Patrick Brantlinger, *Fictions of State. Culture and Credit in Britain, 1694-1994* (Ithaca NY: Cornell University Press, 1996), 110.

[26] Pocock, "Introduction," xxii. As Karl Polanyi summarized, "The French Revolution and its *assignats* showed that the people might smash the currency." Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, 2nd ed., with a new introduction by Fred Block and a foreword by Joseph E. Stiglitz (Boston: Beacon Press, 2001), 235.

[27] Pocock, "Introduction," xxxiii. See also xxv and xxxix.

[28] Edmund Burke to Florimond-Claude, Comte de Mercy-Argenteau, c. August 6, 1793. Edmund Burke, *The Correspondence of Edmund Burke, Vol. VII, January 1792 - August 1794*, ed. P. J. Marshall and John A. Woods (Cambridge and Chicago: Cambridge

For Burke, the *assignats* were tainted from the beginning by their origin in expropriated church property.[29] As "Symbols of publick Robbery" they could "never have the Sanction and the currency that belong exclusively to the Symbols of publick faith."[30] Through their fraudulent origin, the *assignats* amounted to a challenge to the principle of property as such. "Jacobinism," Burke wrote in 1796 in a formulation that David Bromwich has described as the "most condensed" to have ever flowed from Burke's pen, "is the revolt of the enterprising talents of a country against it's [sic] property."[31] If land was the ultimate form of property that secured the social order, the *assignats* exemplified a nightmarish "process of continual transmutation of paper into land, and land into paper" that ultimately dissolved any stable system of property.[32] A more "unnatural and monstrous activity" could scarcely be imagined. It constituted "the worst and most pernicious part of the evil of a paper circulation."[33]

University Press and Chicago University Press, 1968), 389. The line also serves as an epigraph for one of Spang's chapters. Spang, *Stuff and Money*, 57.

29 Besides his extensive account in the *Reflections*, see also Edmund Burke, *Discours sur la monnaie de papier et sur le système des assignats de France* (Paris, September 1790). The pamphlet, not included in Burke's complete works, appeared before the *Reflections* and might either be a forgery by a French admirer or taken from a part of Burke's French correspondence that did not survive. Thanks to Anurag Sinha (and through him Richard Bourke) for helpful discussion on the pamphlet's origin.

30 Burke to Florimond-Claude, Comte de Mercy-Argenteau, c. August 6, 1793. Burke, *Correspondence*, 388. As Burke quipped in drawing an analogy between country and coin, "I am not willing to receive [this new-coined France] in currency in place of the old Louis d'or." Edmund Burke, "Fourth Letter on a Regicide Peace [1795]," in *Vol. IX. The Revolutionary War, 1794-1797*, ed. R.B. McDowell and William B. Todd, The Writings and Speeches of Edmund Burke (Oxford: Clarendon Press, 1991), 51.

31 Burke, "First Letter on a Regicide Peace [1796]," 241. For Bromwich's assessment, see David Bromwich, "Burke on Anti-revolutionary War, 1795-1797," as presented at Yale University, CHESS Workshop, January 23, 2015, 18.

32 Burke, "Reflections on the Revolution in France," 238, as well as 204.

33 Burke, "Reflections on the Revolution in France," 238.

But if Burke's condemnation of the French Revolution reached its crescendo in his account of the *assignats*, he was at the same time careful to distinguish between his critique of the French revolutionary notes and the notion of public credit as such. Indeed, in Burke's account, the *assignats* constituted not only a "violent outrage" against property and liberty, but also against the principle of "credit" itself.[34] This meant that the elimination of the *assignats* was a necessary step to restore public credit. "A reasonable publick Credit, and some retribution to those who have suffered by its destruction," Burke explained, "may be hoped for, when this immense mass of fraud and violence, which has usurped its place, is totally destroyd, so as not to leave the slightest trace of its ever having existed."[35] Despite his visceral critique of the *assignats* and occasional apocalyptic pronouncements on the "ocean of boundless debt" that threatened to engulf the nations of Europe, Burke was far less perturbed by the rise of public credit than Smith or Hume had been.

Burke's reasoning of why he thought the *assignats* to be not only fraudulent but destined to fail was similarly far subtler than that of many other observers who drew from the spurious nature of the *assignats* a sweeping denunciation of the fictitious character of credit as such. It was a mistake, Burke explained, simply to equate public credit with doom. Instead, credit was a "great but ambiguous principle, which has so often been predicted as the cause of our certain ruin, but which for a century has been the constant

34 Burke, "Reflections on the Revolution in France," 89-90. "So violent an outrage upon credit, property, and liberty, as this compulsory paper currency, has seldom been exhibited by the alliance of bankruptcy and tyranny, at any time, or in any nation."

35 Burke to Florimond-Claude, Comte de Mercy-Argenteau, c. August 6, 1793. Burke, *Correspondence*, 389.

companion, and often the means, of our prosperity and greatness."[36] As a Whig familiar with the state's finances, Burke clearly saw the benefits provided by the Bank of England's credit since its foundation in the 1690s. However, as a disenchanted observer of eighteenth-century revolutionary politics, Burke recognized the hazardous possibilities of destabilization offered by public debt. While this meant that Burke's position concerning questions of public credit was, as Patrick Brantlinger has put it, an "uneasy" one, it prevented him from collapsing his critique of the *assignats* into a dismissal of public credit itself.[37]

The ambiguity this produced can be observed even in his very account of the *assignats* in the *Reflections*. There, Burke acknowledged that a paper currency may, in principle and for a while, successfully act as the "cement" of social life.[38] Only by basing their attempt to create a land bank based on circulating credit on the confiscation of Church land, the French endeavor had been doomed from the beginning.

> [A]llowing to the scheme some coherence and some duration, it appears to me, that if, after a while, the confiscation should not be found sufficient to support the paper coinage (as I am morally certain it will not), then, instead of cementing, it will add infinitely to the dissociation, distraction, and confusion of these confederate republics, both with relation to each other, and to the several parts within themselves.[39]

The problem was not strictly speaking the principle of credit itself or even the use of paper money, but the fact that its collateral, confiscated church land, was gained by injurious means that violated the trust necessary to sustain it. "[I]f the confiscation should

36 Burke, "First Letter on a Regicide Peace [1796]," 230.

37 Brantlinger, *Fictions of State*, 105.

38 Edmund Burke, *Reflections on the Revolution in France* (Indianapolis: Hackett, 1987), 166.

39 Burke, *Reflections on the Revolution in France*, 166.

so far succeed as to sink the paper currency, the cement is gone with the circulation. In the mean time its binding force will be very uncertain, and it will straiten or relax with every variation in the credit of the paper."[40] What ultimately mattered for Burke was "the credit of the paper" and the French Revolutionary regime had done everything it could to destroy faith in its course of actions.[41] It was this lack of faith and trust that constituted the ground on which Burke arrived at his pessimistic verdict. If Burke's insistence on the monetary contract recalled Locke's argument from the 1690s, his defense made use of a set of arguments based on "natural commercial liberty" that have occasionally been somewhat misleadingly described as Smithian, not least by Smith himself. Burke, Smith explained, "thinks on economic subjects exactly as I do, without any previous communications having passed between us."[42] But this did not mean that Burke shared Smith's view of commerce, nor his suspicion about the rise of public credit. Instead, Burke's intimate familiarity and identification with the state's finances and the workings of the Bank of England led him to a defense of English statecraft and a cautionary embrace of public credit that would be tested during the last months of his life by the suspension of gold.

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40 Burke, *Reflections on the Revolution in France*, 167.

41 Aspects of this account invoked echoes of the intense debates of the 1690s between the proponents and critics of the Bank of England concerning the benefits and pitfalls of national credit versus those of a land bank. See also Burke, "Reflections on the Revolution in France," 89-90.

42 The source for Smith's compliment is somewhat unclear. It was in any case popularized by John Rae in his 1895 biography of Smith. John Rae, *Life of Adam Smith [1895]* (New York: Augustus M. Kelley, 1965), 387-388. The point should not be exaggerated. For a cautionary note, see, for example, K. Willis, "The Role in Parliament of the Economic Ideas of Adam Smith, 1776-1800," in *Adam Smith: Critical Assessments, Volume 1*, ed. John Cunningham Wood (London and New York: Routledge, 1996), 784.

3.3 A Cosmopolitan Currency of Industriousness

In January 1797, less than three weeks prior to the British suspension of gold, Kant published the first part of his *Metaphysics of Morals*. The *Metaphysical Foundations of the Doctrine of Right*, known as the *Rechtslehre*, also contained a brief excursus in response to the question "What is money?," appended to the table of rights that can be acquired by contract.[43] In the excursus, Kant first gave a nominal definition. "*Money* is a thing that can be *used* only by being *alienated.*" The exchange of money is not intended as a gift but "for *reciprocal* acquisition." It implies, secondly, that money is conceived as a "mere *means* of commerce" without value in itself. In moving toward a first definition of money Kant employed the notion of "industriousness" to capture the Lockean sense in which money was stored-up labor power. Money was consequently "the universal *means by which men exchange their industriousness* [Fleiß] *with one another*."[44] "Thus a nation's wealth," Kant explained, "insofar as it is acquired by means of money, is really only the sum of the industry with which men pay one another and which is represented by the money in circulation within."[45] For Kant, money was a representation of the nation's wealth embodied in its industriousness and labor. "The thing to be called money must, therefore, have cost as much *industry* to produce or to

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43 The table, listed in §31, presents a "dogmatic division of all rights acquirable through contracts." Immanuel Kant, *Metaphysik der Sitten* [1797], vol. 12 (Schriften zur Anthropologie, Geschichtsphilosophie, Politik und Pädagogik), Suhrkamp Werkausgabe (Frankfurt am Main: Suhrkamp, 2000), 400-404. Immanuel Kant, *Metaphysics of Morals* [1797] (Cambridge: Cambridge University Press, 1991), 104-106.

44 Kant, *Metaphysik der Sitten*, 401. [AB 123] Kant, *Metaphysics of Morals*, 104.

45 Kant, *Metaphysik der Sitten*, 401 [AB 123]. Kant, *Metaphysics of Morals*, 104.

obtain from other men as the *industry* by which those goods (natural or artificial products) are acquired for which that industry is exchanged."[46]

To support his analysis Kant invoked the authority of Adam Smith – itself a telling indication of just how deeply Scottish political economy had already penetrated European philosophy by the end of the eighteenth century.[47] "'Money is therefore' (according to Adam Smith) 'that material thing the alienation of which is the means and at the same time the measure of the industry by which men and nations carry on trade with one another.'"[48] This was a loose but accurate translation of Smith's account of money in the *Wealth of Nations* as "the universal instrument of commerce" between "all civilized nations."[49] Scholars continue to debate in what precise sense Smith built on Locke and Hume.[50] Despite his initial support for notes, it is clear that the 1772 Scottish

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46 Kant, *Metaphysik der Sitten*, 401 [AB 123]. Kant, *Metaphysics of Morals*, 104.

47 Christian Garve's German translation of the *Wealth of Nations* based on the fourth English edition had appeared in two volumes in 1794 as Adam Smith, *Untersuchungen über die Natur und die Ursachen des Nationalreichtums*, trans. Christian Garve (Breslau: Wilhelm Gottlieb Korn, 1794). On the "tremendous synergy" (Hont) between Smith and Kant's work of the 1790s, see Istvan Hont, "Adam Smith's history of laws and government as political theory," in *Political Judgement*, ed. Richard Bourke and Raymond Geuss (Cambridge: Cambridge University Press, 2009), 169.

48 Kant, *Metaphysik der Sitten*, 402 [AB 125]. Kant, *Metaphysics of Morals*, 106.

49 Smith had written: "It is in this manner that money has become in all civilized nations the universal instrument of commerce, by the intervention of which goods of all kinds are bought and sold, or exchanged for one another." Smith, *The Wealth of Nations*, bk. I, ch. iv, 11, 44.

50 Istvan Hont, in particular, has argued that Smith, unlike Hume, "advocated the use of paper money." Istvan Hont, *Jealousy of Trade. International Competition and the Nation-state in Historical Perspective* (Cambridge MA: Harvard University Press, 2005), 306. Smith's (already somewhat hesitant) faith in paper notes appears however to have been seriously undermined by the 1772 Scottish Banking crisis which delayed publication of *The Wealth of Nations* by several years and led him to rewrite large sections on money. While in his Glasgow lectures on jurisprudence of the 1760s Smith had praised the contribution of banks and paper credit in expanding commerce (LJ [B], 246-250), in *The Wealth of Nations* (1776) after the spectacular failure of the Ayr Bank in

banking crisis left an indelible mark on Smith's earlier confidence in paper money. His tone on the matter was in the end a cautious one – in the *Wealth of Nations* he spoke of paper money as "Daedalian Wings," invoking the fate of Icarus – and Kant's skepticism toward paper money was a widespread reading of Smith that somewhat misleadingly placed him squarely in monetary orthodoxy as a defender of species money.

More telling is Kant's commentary on the Smithian definition he endorsed. Smith's account, Kant argued, must be seen as a bridge between the materiality of species and its formal purpose. One the one hand, Kant concluded from his emphasis on industriousness that bank notes and promissory notes ("*Assignaten*") cannot be regarded as money for they involve too little industry to produce. "Their value," so Kant, "is based solely on the opinion that they will continue as before to be convertible into *hard cash*; but if it is eventually discovered that there is not enough hard cash for which they can be readily and securely exchanged, this opinion suddenly collapses and makes failure of payment inevitable."[51] This was a widely accepted assessment at the time that could make sense of the circulation of promissory notes but dismissed them as fickle and epiphenomenal representation of species. Only the labor invested in finding gold gives money its value, Kant insisted. Directly echoing Locke's argument from the Coinage

1772 Smith described paper money more ambivalently as a useful "waggon-way through the air" that rested however "upon Daedalian wings." (WN II.ii.86) On the delay in publication due to the Scottish banking crisis, see Ian Simpson Ross, *The Life of Adam Smith* (Oxford: Oxford University Press, 1995), 260. See also Sydney Checkland, "Adam Smith and the Bankers," in *Essays on Adam Smith*, ed. Andrew Skinner and Thomas Wilson (Oxford: Clarendon Press, 1975); James Gherity, "The Evolution of Adam Smith's Theory of Banking," *History of Political Economy* 26, no. 3 (1994), 423-41; and Tyler Beck Goodspeed, *Upon Daedalian Wings of Paper Money: Adam Smith, Free Banking, and the Financial Crisis of 1772* (Ph.D. dissertation: Harvard University, 2014).

[51] Kant, *Metaphysik der Sitten*, 401-402 [AB 123-125]; Kant, *Metaphysics of Morals*, 104-105.

Crisis, Kant explained that the stamp that comes with coinage matters only because it confirms the weight and content of a certain piece of metal.[52]

On the other hand, however, Kant turned this argument in another direction by also gesturing toward a conception of money as form, as an intellectual concept abstracted from mere empirical materiality. It is this insistence on form that explains why the money excursus in Kant's text can be found right after the metaphysical table of contracts. Smith's definition, Kant explained,

> brings the empirical concept of money to an intellectual concept by looking only to the *form* of what each party provides in return for the other in onerous contracts (and abstracting from their matter), thereby bringing it to the concept of Right in the exchange of what is mine or yours generally (*commutatio late sic dicta),* so as to present the table above as a dogmatic division a priori, which is appropriate to the metaphysics of Right as a system.[53]

In his discussion Kant elaborated on the formal qualities by drawing a parallel between money and books. "[T]he concept of money, as the greatest and most useful means for the commerce [*Verkehr*] of men with things, called buying and selling (trade), similar to that of a book, the greatest means for exchanging thoughts, can be dissolved into manifold intellectual relations."[54] While the empirical definition pushed Kant to a substantivist account of money rooted in species and industry, his formal definition emphasized that money is never merely matter but also form.

The ambivalence that characterizes Kant's position on money between form and matter has an important political dimension that is not spelled out in the *Rechtslehre.* Though Kant stressed there that money is characterized by being universally accepted, he

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52 Kant, *Metaphysik der Sitten*, 401-402 [AB 123-125]; Kant, *Metaphysics of Morals*, 104-105.

53 Kant, *Metaphysik der Sitten*, 402 [AB 125] ; Kant, *Metaphysics of Morals*, 106.

54 Kant, *Metaphysik der Sitten*, 400 [AB 122]; Kant, *Metaphysics of Morals*, 104.

added in brackets that this universal acceptability was restricted to "within a nation."[55] This short addition betrayed a broader tension between universality and particularity. Kant's emphasis on species as derived from the universal value of industriousness translated into a preference for gold as a cosmopolitan currency of free trade. But the formal character of money could easily pull in a different direction, as we will see below. On Kant's account, this possible disjuncture was still contained by an attempt to align the universalism of industry with the formal dimension of money by tying both to a cosmopolitan concept of commerce.

As Kant had explained in his philosophical sketch on *Perpetual Peace* from 1795, commerce was the most reliable driver of morality in bringing nations together.

> It is the *spirit of trade* [*Handelsgeist*], which cannot coexist with war, which will, sooner or later, take hold of every people. Since, among all of the powers (means) subordinate to state authority, the *power of money* [*Geldmacht*] is likely the most reliable, states find themselves forced (admittedly not by motivations of morality [*Triebfedern der Moralität*]) to promote a noble peace and, wherever in the world war threatens to break out, to prevent it by means of negotiations, just as if they were therefore members of a lasting alliance.[56]

But there also lurked an altogether more ambivalent worry behind the promises of commerce. As Kant noted, commerce could also produce the kind of monetary wealth that motivated envy – the jealousy of trade, in Hume's words – and in turn paid for war.

> In the case of hoarding riches, this would be viewed by other states as a threat of war and would force other states to carry out preemptive attacks (since of the three types of power – military power, the power of alliances, and the power of

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[55] Kant, *Metaphysik der Sitten*, 401-402 [AB 123-125]; Kant, *Metaphysics of Morals*, 104-105.

[56] Kant, *Zum Ewigen Frieden*, 8:368; Kant, "Toward Perpetual Peace," 92. See Muthu, "Conquest, Commerce, and Cosmopolitanism in Enlightenment Political Thought," 222.

> money [*Geldmacht*] – the third may well be the most reliable tool of war), if it were not for the difficulty of assessing the extent of the wealth of a state.[57]

This ambivalence also found expression in Kant's stance on public credit in the essay's fourth preliminary article. While the section is sometimes read as an anxious ban of public debt, it specifically only applies in relation to the state's "foreign affairs" [*äußere Staatshändel*]."[58] Crucially, the first line is immediately followed up by an embrace of public credit for welfare or economic purposes. "There is nothing questionable about seeking financial assistance from sources either outside or within the state for the sake of the domestic economy [*Landesökonomie*] (for the improvement of roadways, for new settlements, for the provision of food reserves for bad harvest years, etc.)."[59] If, and only if, the credit system was by contrast used to finance military endeavors, it posed "a dangerous monetary power" that had to be checked.[60] Furthermore, military competition was not the only worry. As Kant explained in his 1793 essay "On the Common Saying: That May Be Correct in Theory, but It is No Use in Practice," civic protection in a modern commercial republic may require some form of economic safety in the form of economic assistance for hardship as well as possible restrictions on certain forms of trade.[61] Kant's position on commerce, money, and public credit is thus marked by a

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[57] Kant, *Zum Ewigen Frieden*, 8:345; Kant, "Toward Perpetual Peace," 69. On the broader eighteenth-century context and responses to Hume's jealousy of trade, see Hont, *Jealousy of Trade*.

[58] Kant, *Zum Ewigen Frieden*, 8:345; Kant, "Toward Perpetual Peace," 69. For a brief discussion, see Peter Niesen, "Restorative Justice in International and Cosmopolitan Law," in *Kant and Colonialism*, ed. Katrin Flikschuh and Lea Ypi (Oxford: Oxford University Press, 2014), 185.

[59] Kant, *Zum Ewigen Frieden*, 8:345; Kant, "Toward Perpetual Peace," 69.

[60] Kant, *Zum Ewigen Frieden*, 8:345; Kant, "Toward Perpetual Peace," 69.

[61] Immanuel Kant, "On the Common Saying: This May Be True in Theory, but It Does Not Hold in Practice [1793]," in *Political Writings*, ed. H. Reiss (Cambridge:

political and moral ambivalence between the promises of commercial interaction and the potential devastation implied by envious competition. A similar tension can be found in Kant's account of money in the antinomy between matter and form, between gold and paper money. The Bank of England's suspension of gold a mere three weeks after the publication of Kant's *Rechtslehre* would call into question Kant's species-based definition of money and vindicate his insistence on form.

3.4 A Weekend in February 1797

When the suspension of gold was announced on February 25, 1797, the entire political punditry was stunned. News of suspension immediately spread to the continent and resonated with observers not only in France but also in particular in the German lands. The weekend was the most condensed form of the above-mentioned epistemological revelation of credit Pocock had in mind. Overnight, conventional monetary wisdom was overturned as dazzled observers struggled to comprehend that money was no longer (and perhaps never had been) a simple representation of stable commodity value but was instead a circulating sign, a collective cultural and political project of artificially created value.

Despite the shock of the South Sea Bubble and a widespread wariness of public credit, over the course of the eighteenth century the Bank of England's reputation and

Cambridge University Press, 1970), 80n. "Measures of this kind might include certain restrictions on imports for the benefit of the subjects themselves and not as an advantage to foreigners or an encouragement for their industry. For without the prosperity of the people, the state would not have enough strength to resist external enemies or to preserve itself as a commonwealth." On this and the link to Fichte, see Hont, "Adam Smith's history of laws and government as political theory," 170.

influence had grown in leaps. Trust that the Bank's notes were reliably redeemable in hard coin meant it was able to slowly displace most of its smaller private country bank competitors. By the 1770s it had become the near sole source of bills of exchange in London.[62] Bills had been in circulation for almost a hundred years, issued both by private banks and the Bank itself, but these had, at least nominally, always been backed by gold, silver, or land. The bills were precisely not yet fiat money. In the minds of contemporaries, to record the claims to deposited gold on paper was merely a shortcut of convenience whose entire value continued to derive from a claim to actual metal, safely stored away in the basement of a bank but redeemable at will. It was this link and line of thought that was consciously broken in February 1797, not by fraud but by design. On February 26, 1797, modern paper money was born by way of an indirect declaration of insolvency.

Money was no longer based on bullion but had instead become an expression of creditworthiness. Notes that had promised payment in gold had been converted into fiat money, backed solely by the promise of the state and its future tax revenue. As observers liked to remark retrospectively, in a single stroke the full intellectual and political implications of a modern system of paper money and the credit state had been revealed. With money no longer backed by precious metal it had become a self-referential fiction that could either be self-confirming in the form of circulating trust or self-undermining in the case of panic-fueled bank runs. Fiat money was a form of circulating credit. Retrospectively, the British transition to fiat money revealed in this sense that even

62 John Kenneth Galbraith, *Money: Whence It Came, Where It Went* (Boston and New York: Houghton Mifflin, 1975), 33-34. Christine Desan, *Making Money: Coin, Currency, and the Coming of Capitalism* (Oxford: Oxford University Press, 2015), 360-403.

commodity money had always been a form of credit. Even coins were money not so much because of their material but the sign that marked them and trust placed in them.

For us, this point might be less troubling and far easier to appreciate. In an age of credit cards and electronic payments it is plainly obvious that virtually all of what we call money today is in fact credit. For the person buying bread on Monday morning after suspension with a paper note no longer backed by gold the thought was far more alien and frightening. Interpretations as to what precisely had happened varied dramatically, not least because the widely expected inflation initially failed to set in.[63] To an almost maddening extent for the puzzled contemporary participants, for the first three years prices initially stayed almost completely stable despite being no longer tied to gold. Much of existing monetary theory found itself short-changed.[64] Many had equated suspension of gold with immediate and apocalyptic disaster. Soon, however, the weekend and suspension came to illustrate the changing nature of sovereignty and government, of the linkages between the modern state and the monetary economy. An initial stage of disorientation gave way to a reflexive coming to terms with modernity.

The suspension of convertibility must have appeared all the more remarkable, not to say audacious, in light of French monetary events earlier that very same month. On 4 February 1797 (16 Pluviôse V), the French *assignats* had met a disastrous end. After a gradual decline in value the notes had finally collapsed entirely, having lost almost all of their value in an inflationary spiral as the link between paper and land had become

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63 And even when they did begin to rise in 1800 the rise had more to do with gold hoarding on the continent than excessive issuance of paper money. More on this in the next section.

64 Polanyi has interestingly blamed the initially confusion concerning the weekend to the mistaken cognitive separation of markets from politics characteristic of market society. Polanyi, *The Great Transformation*, 204.

spurious.[65] Less than three weeks later, the most venerable financial institution in the world introduced fiat paper money in a move that seemed to many observers a tragic repetition of the French events. But things were not quite as they seemed. For while the *assignats* had been still backed by expropriated church land, the new English notes were only backed by public credit. It was this leap that allowed the suspension notes to succeed where the French notes had failed.

The full suspension of gold was both more radical and, oddly enough, turned out to be more stable than the attempt to link paper to land. Both Law's scheme and the *assignats* could not help but carry with them a distinctive smell of fraud precisely because the underlying link to metal was not broken but merely displaced into land and then gradually softened. The English emergency turn to fiat money in 1797, by contrast, quickly found widespread support amongst those whose opinion mattered – notwithstanding severe criticism that drew baneful comparisons to the *assignats* or Law's experiment. On the day of its announcement the suspension of gold found the full support of the established banking community, which vowed to honor the paper money and

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65 After the trauma of the *assignat*s, France returned to gold and silver which formed the backbone of Napoleon's monetary system based on the introduction of the *franc germinal* coinage in 1803. Instead of issuing paper money or borrowing through a central bank, the new gold coinage was financed instead through the Louisiana Purchase, the sale of French territory west of the Mississippi to the United States for three million dollars in gold. Self-consciously cut off from credit-based war finance Napoleon had to rely on ever more daring conquests to pay his troops in loot. Eventually, this became an unsustainable enterprise. Conveniently, however, the collapse of the *assignats* meant that more than two-thirds of the French national debt had been wiped out with it. By 1818 French per capita public debt was a mere fraction – less than a fifteenth – of British per capita public debt. François Crouzet, "Politics and Banking in Revolutionary and Napoleonic France," in *The States, the Financial System and Economic Modernization*, ed. Richard Sylla, Richard Tilly, and Gabriel Tortella (Cambridge: Cambridge University Press, 1999), 20-52. Niall Ferguson, *The Cash Nexus: Money and Power in the Modern World, 1700-2000* (New York: Basic Books, 2001), 147.

conduct all its own transactions, as far as possible, in it. Popular reaction to the decision thus coalesced into a curious state of becalmed shock. Gold coins of course quickly disappeared from circulation. New notes in small denominations were quickly issued in their stead: for the first time one and two-pound notes entered circulation. An immediate financial meltdown was avoided and on May 3, 1797, Parliament confirmed the suspension.

Unlike the preceding crises of the last quarter of the eighteenth century the crisis of 1797 was a dual political and banking crisis. It brought together the precarious role of government war financing with the fragility of a largely unregulated private banking system outside of London, the so-called country banks. At the juncture between the two stood a relatively new institution that the crisis pushed into the limelight: the Bank of England, which through the crisis established itself fully as the first modern central bank. The success in avoiding a choking death of the British fiscal-military machine was achieved by standing the entire monetary system on its head. And neither the military threat nor the monetary uncertainty disappeared over night. Instead, a lively debate about the relative merits of the radical measures emerged. Suspension was presented as but a temporary, cautionary measure, to be revoked six months after a victory over the French. None of this calmed the critics.

James Gillray, one of the most popular caricaturists of the time, took up the suspension of species with unprecedented vigor. In a print from March 9, 1797 (see Appendix, Figure 2), Gillray presented the Bank of England as a reverse Midas whose touch turned gold into paper. Standing in front of approaching French ships and marked by an inflated belly that held the "key of public prosperity," the Anti-Midas farted and belched out paper notes. Ironically, the new printing techniques that allowed for the mass printing of the new notes also made possible Gillray's satirical sketches. It is not at all unlikely that some of the very same engravers commissioned to print the new notes used the same presses in the evening to print political caricatures against them (or indeed forged notes at night).[66] If printing drove the political economy of suspension, the printing techniques themselves were at the same time insufficiently advanced to forestall forgeries. The rushed production of the new notes did not help and the simplicity of the new notes' design invited fakes despite the fact that counterfeiting was declared treason and as such a capital crime, punishable by hanging – even for the mere possession of a forged bill.[67] Forgery made visible the larger contradictions of suspension. A world in which so much hinged on one's ability to tell fiat from forgery elevated anxieties of authenticity to unprecedented levels. The distinction between truth and fiction was destabilized.[68] This was not only the golden age of monetary forgery and caricature but also of literary forgeries. In an ironic public sphere, printing presses were simultaneously

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66 Ian Haywood, *Romanticism and Caricature* (Cambridge: Cambridge University Press, 2013).

67 On the consequent violence, see Wennerlind, *Casualties of Credit*, 123-160. Forgery could equally be used as a tool of war. At least since 1793 William Pitt encouraged French royalist émigrés in England to forge *assignats* for export to France, a form of economic warfare already well tried during the American war of independence.

68 Kant's famous essay on truth and lying appeared in the *Berlinische Blätter* in September 1797 and was immediately the focus of an intense debate around questions of "truth and truthfulness" (so the title of an anonymous response in the subsequent issue). Immanuel Kant, "Über ein vermeintes Recht aus Menschenliebe zu lügen," *Berlinische Blätter*, no. I (1797), 301-14. Anon., "Über Wahrheit und Wahrhaftigkeit [Antwort auf Kant]," *Berlinische Blätter*, no. II (1797), 1-13

printing bank notes, forgeries, and caricatures. Indeed, some of the most ingenious caricatures themselves resembled forged bank notes.[69]

As we saw above, in the *Reflections* Burke had contrasted his case against the fictitious nature of the French *assignats* with the stability of the English system of finances. At least on first sight, the English suspension of gold in 1797 and the adoption of paper money would seem to complicate this contrast, if not entirely undermine it. But as Burke intimated in numerous letters during the last months before his death in July 1797, suspension barely altered his assessment, at least not initially. Unlike the doomsayers of public credit, Burke insisted even after "the late disturbances" of suspension on "the good State" of the Bank of England and its credit.[70] The Bank's credit, he explained, "cannot be affected but by invasion."[71] As Burke recognized despite his unease about the military situation, what mattered was not the question of gold or paper but more fundamentally the health of the English political system and its ability to sustain the nation's credit. "I do not altogether like the complexion of Monday's debate," Burke admitted in commenting on the Commons debate of Monday, February 28, following the suspension of gold announced by the Privy Council over the weekend.[72] But this, he explained, had more to do with Pitt's lackluster defense of suspension than with suspension itself. "As to the present flurry about publick Credit, there is no cause, I think, for alarm, unless the means that are taken to support it, should not undermine its

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69 Haywood, *Romanticism and Caricature*, 41.

70 Edmund Burke, *Extracts from Mr. Burke's Table-Talk at Crewe Hall, written down by Mrs. Crewe*, 4.

71 Burke, *Extracts from Mr. Burke's Table-Talk*, 4.

72 Burke to George Canning, 1 March 1797. Burke, *Correspondence*, Vol. IX, 268. See also Burke, *Correspondence*, Vol. IX, 268n3.

foundations."[73] There was little reason to doubt the soundness of England's credit. "[F]or the present, if the general interest is appealed to in support of Credit, Credit will be supported."[74] Suspension placed the burden of the war effort and the public finances squarely on the shoulders of public credit, and thereby faith in the nation's creditworthiness.

Like Locke, Burke understood that money was conventional and thus depended on trust and faith.[75] But while Locke had concluded from this the need to irrevocably tie money to metal as a means of stabilizing its semantic uncertainty, Burke allowed for more flexible means of sustaining trust and stability.[76] This also expressed itself in his Whiggish account of the rise of public credit since Locke's days. The ambiguous rise of public credit was on Burke's account a direct response to the Coinage Crisis of 1695.[77]

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73 Burke to George Canning, 1 March 1797. Burke, *Correspondence*, Vol. IX, 269. Concerning Pitt's presentation of the argument, by contrast, Burke explained that "Mr Pitt must much more distinctly avow his cause, his principles, and his Allies, than He did in that Debate, or his Enemies will every day gain some new advantage over him." Burke, *Correspondence*, Vol. IX, 268-9.

74 Burke to George Canning, 1 March 1797. Burke, *Correspondence*, Vol. IX, 269.

75 In this sense, Burke was closer to Richard Price's observation that money owed "its currency to opinion" than he could possibly admit in the *Reflections*. Richard Price, "Observations on the Nature of Civil Liberty, the Principles of Government, and the Justice and Policy of the War with America [1776]," in *Political Writings*, ed. D. O. Thomas (Cambridge: Cambridge University Press, 1991), 58. Price had concluded from his observation, by contrast, that a paper currency whose value was determined by local circulation had only "a local and imaginary value."

76 See also Uday S. Mehta, "Edmund Burke on Empire, Self-Understanding, and Sympathy," in *Empire and Modern Political Thought*, ed. Sankar Muthu (Cambridge: Cambridge University Press, 2012), 174n39.

77 See, for example, his *First Letter on a Regicide Peace*, penned in late 1769, in which Burke explicitly linked the Coinage Crisis and the birth of public credit. "Such was the state of the empire. The state of our finances was worse, if possible. Every branch of the revenue became less productive after the Revolution [of 1688]. Silver, not as now a sort of counter, but the body of the current coin, was reduced so low, as not to have three parts in four of the value on the shilling. In the greater part the value hardly amounted to

Gazing back at the Bank of England's founding and subsequent ability to expand its credit successfully over more than a century Burke pointed out that the Empire had been built on the back of the Bank's credit. As he explained, even growing credit could be stabilized as long as property was vigorously guarded. *This* was the principle the French Revolutionaries had so egregiously violated in attempting to build circulating credit on the basis of an initial act of expropriation.

Despite this acknowledgement of the possibilities of credit, Burke never fully lost sight of Locke's insistence on metal money. In his correspondence following suspension Burke drew part of his support for Pitt's decision from the belief that it was a temporary act and that, paradoxically, confidence in the Bank's credit would soon lead to the reappearance of coins.[78] When confronted with the realization that this would not be the case and that new notes in low denominations would instead come to replace coins, Burke was dismayed. "I am exceedingly mortified at this scheme of issuing small paper," he confided in a friend.[79]

In the spring of 1797, as the suspension of gold gradually took on a more permanent character, Burke, already sick and unable to write himself, dictated what would prove to be his last work, the *Third Letter on a Regicide Peace*.[80] Despite his

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a fourth. It required a dead expence of three millions sterling to renew the coinage. Publick credit, that great but ambiguous principle, which has so often been predicted as the cause of our certain ruin, but which for a century has been the constant companion, and often the means, of our prosperity and greatness, had it's [sic] origin, and was cradled, I may say, in bankruptcy and beggary." Burke, "First Letter on a Regicide Peace [1796]," 230.

78 Burke to George Canning, 1 March 1797. Burke, *Correspondence*, Vol. IX, 269.

79 Burke to French Laurence, 5 March 1797. Burke, *Correspondence*, Vol. IX, 271.

80 The Letter only appeared on November 13, 1797 after Burke's death. F. P. Lock, *Edmund Burke, Volume II, 1784-1797* (Oxford: Clarendon Press, 2006), 561. David

subtle accomodation with the forces of public credit that had supported the Empire prior to suspension, Burke remained indebted to a set of Lockean arguments concerning the unalterability of the price of money. Criticizing attempts to set the rate of interest, Burke concurred in the *Third Letter* with Locke that "[t]he value of money must be judged, like every thing else, from it's [sic] rate at market. To force that market, or any market, is of all things the most dangerous."[81] To alter the monetary contract, Burke explained, "would amount to a tax on that peculiar species of property. In effect, it would be the most unjust and impolitick of all things, unequal taxation. It would throw upon one description of persons in the community, that burthen which ought by fair and equitable distribution to rest upon the whole."[82]

This verdict now expressed itself in Burke's assessment of the broader monetary situation. His opinion tilted from an initial cautionary optimism to the kind of predictions of doom that had begun to characterize his assessment of the war with France in general. He was now, as he put it himself, "in a strange kind of harmony of discord, between both sides of the House" that only left room for "melancholy reflections."[83] Burke, who had

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Bromwich, "Burke on Anti-revolutionary War, 1795-1797," as presented at Yale University, CHESS Workshop, January 23, 2015.

81 Burke, "Third Letter on a Regicide Peace [1797]," 346-347.

82 Burke, "Third Letter on a Regicide Peace [1797]," 346-347.

83 Burke to William Windham, 30 March 1797. Burke, *Correspondence*, Vol. IX, 299. As well as Burke, *Correspondence*, Vol. IX, 271-2: "Still more so, at the repeal, or temporary suspension, which will lead to more suspensions, of two most salutary acts of Parliament made to prevent the abuse of private credit, which abuse so strongly militates with the use of publick Credit, and perhaps, now at this time more than ever. It prevents all possible operation of the certain remedy which the evil would have furnished to itself – Had I been in Parliament and in my strength I should most certainly have spoke and voted against these, I apprehend, fatal measures." See also David Bromwich, "Burke on Anti-revolutionary War, 1795-1797," as presented at Yale University, CHESS Workshop, January 23, 2015.

been suffering from a stomach illness for much of the preceding year, died in July of 1797 with fears of invasion on his mind.[84] In one of his last requests, he asked to be buried in an unmarked grave, separated from his wife and son, "on Account of the French Revolutionists" whom he suspected would desecrate his grave after a possible invasion.[85]

Despite the lingering threat of invasion, the precarious military balance, and widespread forgery, the suspension of gold succeeded in stabilizing the financial system. The notes, even the new small denominations, remained largely in parity with the gold that no longer backed them. Though prices began to rise somewhat after 1800 under the need for war financing, inflation never reached anything like the dramatic depreciations experienced in the earlier French cases or the American revolutionary currency. Fears about a hyperinflationary spiral familiar from John Law's speculative ventures and the fate of the *assignats* were disappointed. Over the more than twenty-year period from 1797 until 1819 prices rose overall by around 80 percent, an annualized rate of less than four per cent.[86] This was enough to shock contemporaries but in light of the enormous military struggle against the French it is hard not to see it as a relatively modest annualized rate.

3.5 Fiat Money in the Closed Commercial State

Once it became clear that the Bank of England's audacious move had succeeded in easing the war finances while maintaining a broadly stable currency – despite being no

[84] Lock, *Burke, Vol. II*, 570. Bourke, *Empire and Revolution*.

[85] Lock, *Burke, Vol. II*, 577.

[86] Crouzet, "Politics and Banking in Revolutionary and Napoleonic France," 47.

longer tied to gold – a lively debate ensued, not just in England but also across the Continent.[87] In the late 1790s, in the wake of suspension, monetary experiments became a broadly shared contemporary reference point across Europe, in particular among the flourishing newspaper culture of the German lands. Printed alongside Kant's famous late essays in the *Neue Berlinische Monatsschrift* and other Prussian journals readers could find accounts of the latest European monetary developments.[88] A whole generation of critical Kantians, young Romantics, and Hanoverian Anglophiles began to interest themselves in the latest developments in monetary politics. Novalis, the Schlegel brothers, and Friedrich von Gentz all contributed to the discourse. But it was Johann Gottlieb Fichte who set out most decisively and insistently to think through the political and philosophical implications of the new possibilities of fiat money.[89]

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87 The most important English contribution to the debate as it unfolded in London was undoubtedly Henry Thornton, *An Enquiry into the Nature and Effects of the Paper Credit of Great Britain* (London: M.P., 1802), republished, with an introduction by Friedrich Hayek, as Henry Thornton, *An Enquiry into the Nature and Effects of the Paper Credit of Great Britain* [1802], edited and with an Introduction by F.A. Hayek (London: George Allen and Unwin, 1939). See also Francis Horner, "Review of Henry Thornton: 'Inquiry into the Nature and Effects of the Paper Credit of Great Britain'," *Edinburgh Review* (October 1802), Art. XXV, 172-201.

88 Besides the *Neue Berlinische Monatsschrift* some of the other main German-speaking journals covering the monetary events in England and France were *Minerva, Der neue Teutsche Merkur*, *London und Paris*, as well as Friedrich Gentz's *Historisches Journal* (1799-1800). Indeed, *London und Paris* was the only contemporary journal anywhere in Europe, including Britain, to provide running commentary based on James Gillray's caricatures covering the events. See Christiane Banerji's and Diana Donald's recent re-issue and translation of the journal's articles, Christiane Banerji and Diana Donald, *Gillray Observed: The Earliest Account of his Caricatures in London und Paris* (Cambridge: Cambridge University Press, 2009).

89 Johann Gottlieb Fichte, *Der Geschlossene Handelsstaat* [1800], ed. R. Lauth, H. Jacob, and H. Gliwitzky, Gesamtausgabe der Bayerischen Akademie der Wissenschaften, Reihe I, Band 7 (Stuttgart-Bad Cannstatt: Frommann, 1962). The text has recently been translated as Johann Gottlieb Fichte, *The Closed Commercial State* [1800], trans. Anthony Curtis Adler (Albany NY: SUNY Press, 2012). Whenever hereafter citing from *The Closed Commercial State* (CC) I will add the book and chapter numbers in brackets

As we saw above, already Kant had immersed himself in a reading of Scottish political economy in the 1790s and sought to incorporate a discussion of commerce into his vision of perpetual peace. Fichte and the young Romantics took this recognition of the new centrality of political economy yet further and, as I argue in this section, particularly emphasized its monetary dimension. As Isaac Nakhimovsky has shown in his path-breaking study of Fichte's *Closed Commercial State* (1800), Fichte's text must be seen as a radical contribution to the perpetual peace debate in the form of a no less radically consistent attempt to think through the domestic and international economic requirements for the rationalization and pacification of the modern state.[90] What drove Fichte's spirited argument for closing the state to external commerce was a two-fold reconsideration of the internal and external constitution of the state. Externally, Fichte detected a pervasive web of international conflict and commercial competition between states that was triggered, or at least fueled by, considerations of foreign trade, in particular if these took on colonial aspirations. Far from being the bond of peace, commerce between nations was on this account a threatening obstacle to a stable state system consisting of rationally constituted republics. Internally, Fichte insisted that the rational state, based on the principle of autonomous individuals brought together by a social covenant, must move beyond the preservation of bare life toward a guarantee of the economic conditions of autonomy. In

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in the text. Page numbers for Adler's English translation and the German *Gesamtausgabe* version will be provided in the footnotes. Unless otherwise noted, I rely on Adler's translation though I have adapted these where necessary and also consulted Nakhimovsky's rendering where available.

[90] Nakhimovsky, *Closed Commercial State*; as well as the brief comment emphasizing Kant's influence in Hont, "Adam Smith's history of laws and government as political theory," 170. See also Andreas Verzar, *Das autonome Subjekt und der Vernunftstaat: Eine systematisch-historische Untersuchung zu Fichtes 'Geschlossenem Handelsstaat' von 1800* (Bonn: Bouvier, 1979).

response to economic inequality within the state and the jealousy of trade between states, Fichte thus argued internally for extending the social contract to include a right to work, and externally for escaping the pressures of international economic competition by closing the commercial state.

In this section, I will build on Nakhimovsky's work to specifically highlight the role of fiat money in Fichte's proposal.[91] Fichte's sketch contained an elaborate discussion of the nature of fiat money, a detailed account of how the transition from species money to fiat money would have to be effected, and finally how the rational state would subsequently be able to control the money supply to achieve its domestic goals. I will return to all three dimensions. Fiat money, I argue, perfectly encapsulated and exemplified Fichte's solution to the problem of perpetual peace. Closure of international commerce and the introduction of fiat money went hand in hand in his scheme.[92] This was true in two senses. First, only the new possibilities of fiat money allowed for the commercial closure of the state that now no longer had to rely on the inflow of bullion from abroad or fear its outflow. Secondly, only with external commerce banned could fiat money become the kind of fully self-referential medium of value Fichte intended it to be. As long as there was foreign trade, merchants would always compare the value of local fiat money to the international price of bullion, as indeed happened in Britain during the suspension period (and as came to be cited in arguing for the eventual return to gold in

91 Nakhimovsky himself has flagged that Fichte's proposal rested in particular on his "radical vision of the transformative potential of a paper-money system." Nakhimovsky, *Closed Commercial State*, 105, 124. As Fichte clarified, it would nonetheless be a mistake to read his proposal as simply derived from a certain theory of money. The causality ran in both directions. Fichte, *Closed Commercial State*, 107; Fichte, *Geschlossene Handelsstaat*, 86.

92 Nakhimovsky, *Closed Commercial State*, 113-114. "Fichte's vision of a planned economy was predicated on the adaptation of his monetary strategy."

1821). Only once species was fully demonetized would commercial autarky be feasible, just as commercial autarky would be required to fully effect the demonetization of species. The new fiat money issued instead would likely be refused as payment for international transactions and could no longer be converted into gold for this purpose.

Besides reconstructing the immediate Prussian context for Fichte's essay, Nakhimovsky has elegantly situated the proposal within long-standing French debates about political economy and the possibility for amicable relations among the nations of Europe, debates that were particularly concerned with taking up the challenge laid down first by François Fénelon and then Jean-Jacques Rousseau.[93] The historical backdrop Nakhimovsky draws on to situate Fichte's fiat money proposal comes consequently in the form of two earlier French monetary experiments: the issuance of promissory notes by a royalist Mississippi land bank associated with John Law during the 1720s, and the *assignats* of the French Revolution discussed above. What is striking, however, is what distinguished Fichte's fiat money from both Law's promissory notes and the *assignats*. The missing piece to appreciate Fichte's confident embrace of not simply promissory notes but fiat money is the British suspension of species in 1797 and the fiat money innovations of the late 1790s more generally. For while the two earlier French cases continued to link paper to land (only to undermine that link gradually through over-issuance), the British suspension experiment constituted a genuine leap to fiat money.

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93 See also Nakhimovsky, Kapossy, and Whatmore, "Introduction," 1-22. On the Prussian context, Nakhimovsky sketches a fascinating triangle between Fichte, Struensee, the Prussian finance minister to whom Fichte dedicated his text, and the comte de Mirabeau. Nakhimovsky, *Closed Commercial State*, 105, 119, 124. See also Sonenscher, *Before the Deluge*, 251. For the link between Prussia and Mirabeau detailed by Nakhimovsky, see Mirabeau, *Lettre remise a Frederic-Guillaume II*, 275. Mirabeau to Calonne, 7 November 1786 and 16 December 1786, in Mirabeau, *Histoire secrete de la cour de Berlin*, vol. 2, 19-20 (letter 44) and 165-167 (letter 56).

While species had continued to circulate alongside the French *assignats*, Fichte recommended the British decision to fully displace species by fiat money internally.[94] In contrast to the two earlier French cases, the more radical British move of tying money solely to the credit of the state turned out to be vastly more successful and consistent. In particular during the first three years of the suspension period, the years during which Fichte was working on his proposal, prices remained almost perfectly stable as astonished observers celebrated the unexpected stability of fiat money.

When Fichte summarized his manuscript on the *Closed Commercial State* to his publisher Cotta, he not only made explicit reference to the immediate contemporary relevance of his proposal but also emphasized debates about the potential introduction of paper money that had reached the Court in Berlin.[95] Advertising his manuscript, Fichte

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94 "All these previous representations of money are completely different from the money that I have proposed, and that what is true of the former in no way applies to the latter. Those signs of money [*Geldzeichen*] circulate *besides, and at the same time as, the cash.* Apart from the rare case where a nation enjoys great superiority in world trade and has debt claims on practically every foreign country, such signs of money are accepted only within a certain circumference, most often only in the country itself. The latter is accepted there, and at the same time throughout the entire world. It is understandable that someone would prefer something serving two different purposes and covering every possible need to something that can only be used in one way. Not so in our system. Only the national currency is in circulation, and *none other besides it.* It cannot lose value against something that is not the least bit present, and that never enters into comparison or collides with it." (CC 3.5) Fichte, *Closed Commercial State*, 180-181; Fichte, *Geschlossene Handelsstaat*, 125-126. Fichte's argument was thus a simultaneous embrace and radicalization of the monetary ideas behind the British suspension of gold, embracing fiat money but pointing critically toward the unique position of the British empire. Nakhimovsky also flags that this was what distinguished in Fichte's eyes his own recommendations from those earlier failed experiments. Nakhimovsky, *Closed Commercial State*, 107-108.

95 Fichte to Cotta, dated August 16, 1800. Johann Gottlieb Fichte, *Briefwechsel 1799-1800*, ed. R. Lauth and H. Gliwitzky, Gesamtausgabe der Bayerischen Akademie der Wissenschaften, Reihe III, Band 4 (Stuttgart-Bad Cannstatt: Frommann, 1973), 285-286. Also quoted in Nakhimovsky, *Closed Commercial State*, 103. The same day Fichte wrote to Friedrich Schlegel also mentioning his manuscript and how he had encountered

explained that he was pleased to have been able to clarify these and other matters in his essay.[96] Regarding the book's central proposal to close the commercial state, just as the juridical state had been closed, Fichte explained in his dedication to Struehnsee, "the decisive means it proposes to this end [is] the abolition of world currency and the introduction of a national currency." (CC Dedicatory Remarks)[97]

This interest in money – and with it a first imprint of the British suspension of gold – can already be detected in Fichte's two-part *Foundations of Natural Right* (1796/97). The first part, published in March 1796, does not mention money at all.[98] The second part by contrast, published in September 1797 after the suspension weekend, abounds with observations about money, both as a form of property and a central institution of the rational state.[99] Money, Fichte explained there, is "the universal measure

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the topic almost by chance. The debates Fichte witnessed aroused so much "indignation" ("*Indignation*") in him that he set out to clarify the attendant questions of "trade and change, money, national wealth" ("Handel und Wandel, Geld, National-Reichthum"). Fichte, *Briefwechsel 1799-1800*, 284.

96 Fichte to Cotta, dated August 16, 1800. Fichte, *Briefwechsel 1799-1800*, 285-286.

97 Fichte, *Closed Commercial State*, 85; Fichte, *Geschlossene Handelsstaat*, 43.

98 Fichte, "Grundlage des Naturrechts nach Principien der Wissenschaftslehre (1796)," *Gesamtausgabe* I:3, 313-460. Johann Gottlieb Fichte, *Foundations of Natural Right: According to the Principles of the Wissenschaftslehre*, ed. Frederick Neuhouser, trans. Michael Baur (Cambridge: Cambridge University Press, 2000), 1-164. See also Nakhimovsky, *Closed Commercial State*, 38-41, as well as Ulrich Thiele, *Distributive Gerechtigkeit und demokratischer Staat: Fichtes Rechtslehre von 1796 zwischen vorkantischem und kantischem Naturrecht* (Berlin: Duncker & Humblot, 2002).

99 Fichte, "Grundlage des Naturrechts nach Principien der Wissenschaftslehre, Zweiter Theil oder Angewandtes Naturrecht (1797)," *Gesamtausgabe* I:4, 5-165 [hereafter: "Grundlage des Naturrechts, Part 2"]. Fichte, *Foundations of Natural Right*, 165-265.

of the value of things" ("*das allgemeine Zeichen des Werths der Dinge*").[100] And it was the state that guaranteed the sign's validity: "At any time, each person must be able to acquire, in exchange for his money, anything whose enjoyment in general the state has guaranteed; for every piece of money [*jedes Stük Geld*] in the hands of a private person is a sign of the state's indebtedness [*ein Zeichen einer Schuld des Staats*]."[101] The state alone had the authority to coin money, "because only it can guarantee to everyone the value of this money [*weil nur er allen Einzelnen für den Werth desselben Bürge seyn kann*]. For this reason, the mines are necessarily a royal prerogative."[102] In the *Closed Commercial State* Fichte would radicalize this position by embracing the possibility that a state could be well-ordered *and* cut off from foreign commerce, indeed that the truly rational state would *have* to be so constituted.

Some aspects of this process of radicalization are on display in a short note on political economy (entitled "Über StaatsWirthschaft") that was likely written in early 1800 in preparation for the *Closed Commercial State*.[103] As Fichte explained in relation to money, to insist on metal money's intrinsic value was to fall prey to an illusion. Like other forms of money and despite its shiny appearance, it only had value thanks to its

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100 Fichte, "Grundlagen des Naturrechts, Part 2 (1797)," *Gesamtausgabe* I:4, 16. Fichte, *Foundations of Natural Right*, 178. Translation adapted to reflect plural of "Dinge."

101 Fichte, "Grundlagen des Naturrechts, Part 2 (1797)," *Gesamtausgabe* I:4, 42. Fichte, *Foundations of Natural Right*, 208.

102 Fichte, "Grundlagen des Naturrechts, Part 2 (1797)," *Gesamtausgabe* I:4, 43. Fichte, *Foundations of Natural Right*, 209.

103 Fichte, "Über StaatsWirthschaft," *Gesamtausgabe* II:6, 4-8. On the dating, see also Reinhard Lauth and Hans Gliwitzky, "Vorwort," *Gesamtausgabe: Nachgelassene Schriften 1800-1803*, 3.

universal acknowledgment ("*sein allgemeines Gelten*").[104] Moreover, as Fichte sketched in quick but precise strokes for the first time: a rational state could take advantage of this fact and substitute necessity (*Nothwendigkeit*) for mere capriciousness (*Willkühr*). This moral principle applied no less to money and trade than to relations of power. For a system of trade to be truly rational and free its capriciousness had to be eliminated. Problems of political economy (*Staatswirthschaft*) fell in this sense directly in the realm of moral necessity, "where an 'ought' is transformed into an 'is'."[105] If the existence of money as an intermediary of exchange complicated the state's ability to ensure rationally how much each citizen would receive for his or her labor, the realization that money was a sign guaranteed by the state also opened to door to new possibilities of imposing rationality onto political economy.[106]

As Fichte pointed out in the note, this still begged the question of why paper money, as a sign, had been ordinarily backed by metal. Retracing Locke's logic, Fichte explained that the insistence on metal as a collateral should be understood not merely as an illusion but "a protection against suspicious governments" ("*ein Schutz gegen verdächtige Regierungen*").[107] A lack of trust in governments prevented the full utilization of paper money's potential. A second reason, as he had already explained in Part 2 of the *Foundations of Natural Right* (1797), was the prevalence of foreign trade.

> Since nowadays at least all civilized states [*policirten Staaten*] conduct foreign commerce and since foreigners are not likely to accept at the same value the

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[104] Fichte, "Über StaatsWirthschaft," *Gesamtausgabe* II:6, 6.

[105] "*… wo das soll sich in ist verwandelt.*" Fichte, "Über StaatsWirthschaft," *Gesamtausgabe* II:6, 8.

[106] See Fichte, "Über StaatsWirthschaft," *Gesamtausgabe* II:6, 7.

[107] Fichte, "Über StaatsWirthschaft," *Gesamtausgabe* II:6, 8.

> state's money that has been arbitrarily increased *ad infinitum*, it follows that paper and leather money will fall in value even domestically relative to gold and silver which have the same value both inside and outside the state. This will be all the more pronounced, the more commodities the state has to import and the fewer it has to export in exchange for its national currency [*Landesgeld*].[108]

As long as states depended on foreign trade, their ability to issue fiat money was severely constrained. In the *Foundations of Natural Right* this predicament still served as a check against a move toward an unbacked fiat money.

In the *Closed Commercial State*, by contrast, Fichte sought to sketch a countervision of a rational state that was neither entangled in foreign trade nor suffered from the suspicion of its citizens. As he sought to assure his readers, once the state was understood as the reconciliation of the individual autonomy of its citizens, its interest could be seen to converge with those of its members. And a state that had the trust of its citizens had at its disposal the full powers of fiat money. A national fiat currency combined with commercial closure, Fichte explained, was the solution to the problem of political economy. "A closed commercial state whose citizen engages in no direct commerce with the foreigner," he summarized his claim, "*can make absolutely whatever it wants into money.* All it has to do is declare that it will let itself be paid with this money alone and absolutely none other." (CC 1.6)[109] Money only had an "artificial value [*künstlicher Werth*]."[110] Given the state's growing influence over economic life in the form of taxation (the previous year, 1799, had seen the introduction of the first income tax in Britain), whatever the state accepted for the servicing of taxes would almost by

108 Fichte, "Grundlagen des Naturrechts, Part 2 (1797)," *Gesamtausgabe* I:4, 43. Fichte, *Foundations of Natural Right*, 209. Translation slightly adapted.

109 Fichte, *Closed Commercial State*, 79; Fichte, *Geschlossene Handelsstaat*, 122. Fichte's emphasis.

110 Fichte, "System der Rechtslehre (1812)," *Gesamtausgabe* II:13, 249.

default become legal tender. If the state were to collect taxes in the form of the new fiat money this alone would secure the universal validity of the new national currency (CC 1.6).[111]

To effect the transition from bullion to the new fiat money, Fichte recommended firm and decisive action. Gold and silver had to be removed from circulation in one sweep. "Hence, the solution of our task is as follows: all the world currency that is found in the hands of the citizens, viz., all gold and all silver, should be brought out of circulation and converted into a new national currency." (CC 3.4)[112] The demonetization of species had to come in the form of an abrupt break and must happen "all in one stroke." (CC 3.4)[113]

Interestingly, however, Fichte insisted that his fiat money ought ideally not to consist of paper. However irrationally motivated, in the wake of the French *assignats* disaster and the persistence of general skepticism, paper money still suffered from too much prejudice. Despite – or because of – the developments across the Channel, the use of paper money was still tainted in the minds of many contemporaries by its associations with the disastrous loss of value of the French promissory notes. As Fichte concluded in

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111 Fichte, *Closed Commercial State*, 83; Fichte, *Geschlossene Handelsstaat*, 126. See also Nakhimovsky, *Closed Commercial State*, 107-108. Already in Part 2 of his *Foundations of Natural Right,* Fichte had argued that "the very concept of money implies that the substance of the money, as such, is completely useless to human beings. The value of this substance must be based simply on general opinion and agreement [*allgemeine Meinung und Übereinkunft*]. Each person must merely know that every other person will recognize it as the equivalent of the corresponding portion of what is marketable within the state." Fichte, "Grundlagen des Naturrechts, Part 2 (1797)," *Gesamtausgabe* I:4, 42. Fichte, *Foundations of Natural Right*, 208.

112 Fichte, *Closed Commercial State*, 120; Fichte, *Geschlossene Handelsstaat,* 173.

113 Fichte, *Closed Commercial State*, 123; Fichte, *Geschlossene Handelsstaat,* 176. Cf. Nakhimovsky, *Closed Commercial State*, 106.

1800, prejudicial doubts about the viability of paper could be circumvented by resort to a wholly different, though ideally even cheaper material. Instead of paper, Fichte thus advocated that fiat money should be made from an ideally wholly unknown and otherwise useless material (CC 3.4).[114] "The more useless this sign is in and for itself, the less intrinsic value it has, the more fitting it will be to serve as a mere sign, since everything that can be utilized belongs to the nation's intrinsic wealth, and should be enjoyed by the nation and not applied to other ends." (CC 1.6)[115] Besides its ability to escape the prejudices of the people, to please the eye, to be largely useless otherwise, and cheap to manufacture, the new currency had to fulfill one crucial criterion: it had to be difficult to counterfeit.[116] To make the currency as inimitable as possible Fichte insisted that the material or at least some essential constituent part of it, would have to be treated as a state secret. Conveniently, this gave Fichte himself license to evade any further discussion concerning its composition. "It should be evident why I cannot express myself

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114 Fichte, *Closed Commercial State*, 121-124; Fichte, *Geschlossene Handelsstaat*, 174-175.

115 Fichte, *Closed Commercial State*, 78-79; Fichte, *Geschlossene Handelsstaat*, 122. See also Nakhimovsky, *Closed Commercial State*, 106. As mentioned above, Fichte had made the same point already in his *Foundations of Natural Right* (1797) and would reiterate them in his *System der Rechtslehre* (1812). See Fichte, "Grundlagen des Naturrechts, Part 2 (1797)," *Gesamtausgabe* I:4, 42; Fichte, *Foundations of Natural Right*, 208. Fichte, "System der Rechtslehre (1812)," *Gesamtausgabe* II:13, 249.

116 Fichte would himself experience the vulnerability of paper to counterfeiting when his publisher's fears about illegal reprints of *The Closed Commercial State* were realized in 1801 with the appearance of an unlicensed reprint in Vienna as Johann Gottlieb Fichte, *Der Geschlossne Handelsstaat* (Vienna: Doll, 1801). R. Lauth, H. Jacob, and H. Gliwitzky, "Vorwort," in *Der Geschlossene Handelsstaat*, Gesamtausgabe der Bayerischen Akademie der Wissenschaften, Reihe I, Band 7 (Stuttgart-Bad Cannstatt: Frommann, 1962), 8.

more clearly on this point, even supposing that I knew how this would be carried out." (CC 3.4)[117]

If popular opinion concerning paper could be suitably deflected, what mattered far more, Fichte stressed, was to escape the mistaken belief in the intrinsic value of metal – a belief explored in the last chapter with regard to John Locke. It was a genuine puzzle how and why men had began to endow gold and silver with a unique intrinsic value instead of recognizing that even precious metals derive their worth from the opinion of men. As Fichte added,

> To investigate how it came about that men agreed to grant the validity of gold and silver, and nothing in their place, as the sign of all value would take us too far afield. At the very least the reason offered by a famous writer will not do. He claims that because the extraction of a certain amount of gold or silver costs just as much time and effort as the extraction or manufacture of some other specific ware, we are able to accept the one as an equivalent for the other." (CC 2.3)[118]

This was a knowing nod to Adam Smith's account of the history of money in the *Wealth of Nations* – indeed, most likely a reference to the same passage Kant had already cited in the *Rechtslehre*.[119] As Fichte pointed out in response, even the value of precious metal "rests merely in the general agreement about their value." (CC 2.3)[120] Usefulness as a raw material alone could hardly account for the extraordinary value these commodities were able to command when used as species. The scarcity of metals was a social phenomenon

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117 Fichte, *Closed Commercial State*, 175; Fichte, *Geschlossene Handelsstaat*, 122. See also Fichte, *Closed Commercial State* [CC 1.6], 125; Fichte, *Geschlossene Handelsstaat* [CC 1.6], 82.

118 Fichte, *Closed Commercial State*, 143; Fichte, *Geschlossene Handelsstaat*, 96.

119 Adler similarly argues that the reference is to Book I, Chapter 5 and Book II, Chapter 2 of *The Wealth of Nations.* See Anthony Curtis Adler, "Translator's Notes," in *J. G. Fichte, The Closed Commercial State, transl. and with an Interpretative Essay by Anthony Curtis Adler* (Albany: SUNY Press, 2012), 214.

120 Fichte, *Closed Commercial State*, 143; Fichte, *Geschlossene Handelsstaat*, 96.

brought on by the artificial demand of monetary convention, not because of metals' use value. The monetary value of metal, just like that of paper, derived from opinion – even if the fact was easily overlooked. With a keen eye to how the forces of convention tend to obscure their own conventionality, Fichte even speculated that if the situation had been reversed, "the same public would still ask: How then can this piece of silver be worth my good paper?" (CC 1.6)[121]

As Fichte pointed out, this observation suggested not only the extraordinary force of historical contingency but also that a supreme coordinating function accrued to the state in matters that could only be settled by conventionality, of which currency was a signal example. Fichte's argument here recalled Hobbes's line of reasoning that only the sovereign could solve the complicated coordination challenges that either had no intrinsically correct solution or allowed for too much disagreement over the correct solution.[122] If conventionality decided what counted as money and if the state was in a unique position to steer underlying patterns of conventionality, however imperfectly, it was the state that could decide about what counted as money. "Money, in and for itself, is nothing at all," Fichte exclaimed in a statement that also serves as one of the chapter's epigraphs. "Only through the will of the state does it represent something." (CC 1.5)[123] If

[121] Fichte, *Closed Commercial State*, 175; Fichte, *Geschlossene Handelsstaat*, 121. See also Nakhimovsky, *Closed Commercial State*, 106-107.

[122] Thomas Hobbes, *The Elements of Law*, part II, ch. XXIX, par. 8. Hobbes took a keen interest in the logic of currencies, weights, and measures, which he saw as prime illustrations for the kind of covenant based on mutual acknowledgement that was to found the commonwealth by institution.

[123] Fichte, *Closed Commercial State*, 123; Fichte, *Geschlossene Handelsstaat*, 79. Fichte affirmed this analysis of money in his *System der Rechtslehre* from 1812. Fichte, "System der Rechtslehre (1812)," *Gesamtausgabe* II:13, 197-293. For the sections on money, see 249-258, esp. the section on "Grunderfordernisse des Geldes." Cf. also Fichte, "Kommentar zum „Handbuch der Staatswirthschaft" von Theodor Schmalz,"

previous metal money had obscured this conventionality, a national fiat money made it abundantly clear that money rested on opinion (*Meinung*).[124] Fiat money rendered visible the underlying link between opinion and money that was easily obscured in the case of species money despite the fact that metallist currency hinged just as much on conventionality and opinion.

Seemingly paradoxically, Fichte went even further in suggesting that species money rested more arbitrarily on opinion than a national fiat currency backed by the state.

> Precisely because, as I recall in passing, the value of world currency to goods has no other guarantee than public opinion, this ratio is just as fluctuating and variable as public opinion itself. … The national currency described above would, in contrast, have an entirely different guarantee, since it would have to be a fundamental law of the state that it will forever accept the money it gives out at the same value in relation to commodities and maintain it at this value among the fellow citizens. (CC 2.3)[125]

This was no trivial point. It implied that a fiat currency was more rational than species precisely because it allowed for the intentional and self-conscious ability of the state to control the value of money instead of being the largely helpless recipient of whatever price of gold or silver the fickle opinions of the world market determined. The commercial closure of the state would thus validate the independent worth of things that had previously only rested on opinion. Once a national fiat currency had been introduced

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Gesamtausgabe II:13, 7-10; and Fichte, "Abhandlung über Pfandbriefe und das Finanzsystem usw. Finanzbetrachtungen," *Gesamtausgabe* II:13, 11-34.

124 See also Adler, "Interpretative Essay," 58.

125 Fichte, *Closed Commercial State*, 144; Fichte, *Geschlossene Handelsstaat*, 96-97;

and the commercial state closed, the state was free to conduct its independent monetary policy. Self-fulfillingly, mere opinion would become truth.[126]

> Since the prosperity of an industrious and well-governed nation will grow from year to year, an ever greater number of goods of an ever higher value relative to the primary means of nourishment will enter into circulation. The state will keep a precise watch on this increase, since it occurs under its own direction. Therefore, the state can and will determine the ratio of money according to this increase in the value of goods. If, on the one hand, the prices in money of the goods are to remain as they were, it will increase the amount of circulating money in proportion to the additional value of goods. (CC 1.6)[127]

As I will argue in Chapter 4, it would be more than a hundred years before John Maynard Keynes would set out once more a similar path for monetary reform based on the deliberate control of one's currency.[128]

All this still begged one profound question, as Fichte himself acknowledged. How was the state to guarantee the stability of its new fiat money in the absence of external constraints imposed by species and international trade? Money, Fichte predicted that critics would insist, had been kept independent from governments in order to prevent abuse and had instead been guaranteed by the agreement of nearly the entire human race (CC 3.5).[129] This had been Locke's argument. Who would watch over governments that were now able to issue national fiat monies as the pleased? Fichte's response to these

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126 Adler has described this process as akin to a transubstantiation of money "from gold to a yet unknown substance issuing forth from the secret chambers of the government, born not of nature but of human ingenuity." Adler, "Interpretative Essay," 66.

127 Fichte, *Closed Commercial State*, 124; Fichte, *Geschlossene Handelsstaat*, 81. Fichte's description of the mechanics is almost uncanny in the degree in which it resembles the way we have become accustomed to running our monetary affairs since the end of the Bretton Woods system in 1971-73.

128 John Maynard Keynes, *A Tract on Monetary Reform* (London: Macmillan, 1923). I return to this claim in the fourth chapter.

129 Fichte, *Closed Commercial State*, 181; Fichte, *Geschlossene Handelsstaat*, 127.

queries turned on the acknowledgement that the rational state would have to bind itself somehow. The closed commercial state had to stand by its word that it will

> ensure for all time the value of the money distributed by it. ... The government will solemnly agree to forever renounce the right to increase the quantity of circulating national currency arbitrarily and for its advantage, either by accepting equivalent goods in exchange for newly created money or by using it to pay salaries and defray other expenses. (CC 3.4)[130]

Already in Book One Fichte had explained that in the rational state the value of its fiat money must remain invariable. This meant the state had to follow "firm principles." (CC 3.4)[131] How was this to be achieved? Fichte's line of response, Nakhimovsky has pointed out, echoed Rousseau in this regard. "The only way to prevent abuse by the government," so Nakhimovsky, "was to ensure that its interest was aligned with the common good."[132] Fichte thus specified that the imperative of safeguarding the currency's value had to be fixed in constitutional law. But such a constitutional constraint had to be grounded by a deeper alignment of the state's interest with that of the public. Only such an alignment could produce a check powerful enough to prevent the very motivation to transgress. "The most certain guarantee against illegalities and transgressions of every kind," Fichte pointed out, "is that the need does not arise for them, that they do not bring an advantage for the transgressor." (CC 3.5)[133]

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130 Fichte, *Closed Commercial State*, 175; Fichte, *Geschlossene Handelsstaat*, 123.

131 Fichte, *Closed Commercial State*, 174; Fichte, *Geschlossene Handelsstaat*, 122.

132 Nakhimovsky, *Closed Commercial State*, 115. As Fichte insisted in his lectures on the *System der Rechtslehre* from 1812: "Ich sage auf dieses alles: der Staat den wir bis jezt beschrieben haben, kann dies nicht wollen; er würde dadurch sich selbst vernichten: die Ordnung aufheben, u. sich alle die Noth der Unordnung auf den Hals ziehen." Fichte, "System der Rechtslehre (1812)," *Gesamtausgabe* II:13, 250.

133 Fichte, *Closed Commercial State*, 182; Fichte, *Geschlossene Handelsstaat*, 127.

This still left Fichte vulnerable to critics who either explicitly defended the value of foreign trade or doubted the feasibility of disentangling the modern state from its dense web of commercial links and imperial interests. "If the whole of Christian Europe," Fichte ventriloquized, "with its new colonies and its trading centers in other parts of the world, still remains a whole, then the trade between all its different parts must certainly remain free, just as it was originally." (CC 2.2)[134] To this he responded by advancing his own vision of the European state system. "If [Europe] is, in contrast, separated into a number of states, each forming a whole and each standing under a different government, then it must be separated off into just as many thoroughly closed commercial states. For a long time there were no states at all in modern Europe. At present, one is still attempting to form them." (CC 2.2)[135] This implied an enormous and ongoing task of building a rational state system. The states' purposes were, furthermore, not to serve themselves but to advance the autonomy of its citizens. This required in turn a radical extension of the social contract tradition. The task of the rational state had been misunderstood if it was limited to a narrow understanding of enabling the mutual self-preservation of the parties to its founding covenant.

> One has up till now only one-sidedly, only half comprehended the task of the state, conceiving of it as an institution that, through the law, should preserve the citizen in whatever state of possession it finds him in. Yet one failed to see that the profounder duty of the state is to put each in possession of what is his due. Yet the latter is only possible by eliminating the anarchy of trade, just as one gradually is eliminating political anarchy. The state must close itself off as a commercial state, just as it has already been closed off in its legislative apparatus and judiciary. (CC 2.2)[136]

134 Fichte, *Closed Commercial State*, 141; Fichte, *Geschlossene Handelsstaat*, 95.

135 Fichte, *Closed Commercial State*, 141; Fichte, *Geschlossene Handelsstaat*, 95.

136 Fichte, *Closed Commercial State*, 141; Fichte, *Geschlossene Handelsstaat*, 95.

This was a direct call to complete the efforts of the two prior centuries in building a rational European state system that could escape and withstand the spirals of military and economic competition. And according to Fichte this task required an economic extension that would complete the political covenant. Just as the Hobbesian state had succeeded in overcoming political anarchy, so would the rational state Fichte envisaged overcome the effects of economic anarchy.

The project of abolishing economic anarchy in the domestic realm further entailed an elaborate critique of the political economy of empire.[137] In his dedicatory remarks Fichte anticipated that a European audience would likely reject his proposal as "unpractical" since it questioned the way in which eighteenth-century patterns of international trade were imbricated with empire.

> The reason for this unwillingness, be it thought through clearly or be it not, is that Europe has a great advantage in trade over the remaining parts of the world, whose forces and products it takes for its own use without giving anywhere near a sufficient return payment. Every single European state, however unfavorable its own balance of trade stands in relation to the others, still draws some advantage from this common exploitation [*Ausbeute*] of the rest of the world, nor will it ever abandon the hope of improving the balance of trade in its favor and thus drawing an even greater advantage. With its departure from the greater European commercial society it would have to renounce all this. (CC Dedicatory Remarks)[138]

Even the weakest European state shared in the benefits of the "common exploitation [*Ausbeute*] of the rest of the world" and could be expected to find Fichte's proposal less

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137 On the Enlightenment critique of empire, see more broadly Sankar Muthu, *Enlightenment Against Empire* (Princeton: Princeton University Press, 2003); as well as Muthu, "Conquest, Commerce, and Cosmopolitanism in Enlightenment Political Thought," 299-231. On Kant and the German context, see the excellent collection by Katrin Flikschuh and Lea Ypi, eds., *Kant and Colonialism* (Oxford: Oxford University Press, 2014).

138 Fichte, *Closed Commercial State*, 85; Fichte, *Geschlossene Handelsstaat*, 44.

than advantageous, even if it was itself a victim of exploitative trade within Europe. The enormous profits to be drawn from the slave trade and the colonies' enforced submissiveness, Fichte explained, were bound to render European states hostile to his proposals. Against this, Fichte insisted that Europe's relation to the world – "a relation grounded neither in Right nor in Fairness [*Billigkeit*]" – could not possibly continue. Eventually, Europe would have to face up to its egregious practices that went against the principle of practical reason. In the *Closed Commercial State*, Fichte left this thought unfinished, declaring the proof of his dismissal of colonial exploitation as a violation of practical reason as "beyond the limits of my present intention."[139]

Part of the solution, he nonetheless intimated, was to be found in his account of history. As several commentators have remarked, Fichte's proposal for fiat money and commercial closure is embedded in a bracing conception of modern historicity. Indeed, Anthony Curtis Adler has recently gone so far as to argue that for Fichte "history is, above all, monetary in nature. The crux of history is money. … [H]istory is, of essence, neither materialist nor idealist, but monetary. It is money above all, itself both real and ideal, that announces at once the danger and the possibility of history."[140] These claims may appear extravagant and they are certainly exaggerated. But to see what Adler has in mind it is helpful to appreciate two aspects. The first is the way in which fiat money, for Fichte, constitutes also a temporal bridge between the present and the future. This was one of the ways, flagged by Pocock, in which the rise of public credit and paper money

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139 Fichte, *Closed Commercial State*, Dedicatory Remarks: 44; 85. See also Iwan-Michelangelo D'Aprile, *Die Erfindung der Zeitgeschichte. Geschichtsschreibung und Journalismus zwischen Aufklärung und Vormärz* (Berlin: Akademie Verlag, 2013), 178, as well as Lauth, Jacob, and Gliwitzky, "Vorwort," 4.

140 Adler, "Interpretative Essay," 11, 14.

altered the very sense of temporality during the late eighteenth century.[141] The second aspect relates to Fichte's philosophy of history more broadly and culminates in a link between fiat money, reason, and history.

As Fichte explained, once a nation has been closed off and its cosmopolitan money (*Weltgeld*) been replaced by national money, a transformation takes place that alters not just the nation's economic relations but implies a constitutional transformation of the nation itself.

> It is clear that in a nation that has been closed off in this way, with its members living only among themselves and as little as possible with strangers, obtaining their particular way of life, institutions, and morals from these measures and faithfully loving their fatherland and everything patriotic, there will soon arise a high degree of national honor and a sharply determined national character. It will become another, entirely new nation. The introduction of national currency is its true creation. (CC 3.7)[142]

This is what Adler has in mind when he argues that the history of rational progress toward the realization of humanity's highest ends begins for Fichte with the introduction of fiat money.[143] Furthermore, in adopting his posture on the edge of a vast and open future, Fichte contrasted his own conception of a contingent but rational history of a divided mankind with the vantage point of the ancient world. His essay on the *Closed Commercial State* was in this sense an exercise in writing a "history of the present."[144]

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141 Pocock, *Virtue, Commerce and History*, 113.

142 Fichte, *Closed Commercial State*, 195; Fichte, *Geschlossene Handelsstaat*, 139. As quoted in Adler, "Interpretative Essay," 66-67.

143 Adler, "Interpretative Essay," 67.

144 The title of Book Two of the *Closed Commercial State* is accordingly "Zeitgeschichte." Fichte, *Closed Commercial State*, 135; Fichte, *Geschlossene Handelsstaat*, 91. On the invention of a "history of present" around 1800, see the excellent D'Aprile, *Die Erfindung der Zeitgeschichte. Geschichtsschreibung und Journalismus zwischen Aufklärung und Vormärz.* To encounter the vast and open future that extended from the present, Fichte recommended a stance of wonder as the proper

3.6 Conclusion

By 1810, the rise in prices, modest as it may have been initially, had nonetheless attracted ire. In Britain, despite the immediate success of suspension in keeping state finances flowing and troops marching, and although nothing like the dramatic depreciations of the earlier French and American cases had ensued, the very fact that prices were moving became a source of great worry and discontent.[145] In 1810, Parliament took the unprecedented step of charging a Select Committee with investigating the rise in the price of bullion or, put the other way around, paper's loss of value. The Bullion Committee's daily hearings of bankers and brokers were accompanied by a flurry of pamphlets (including by a hitherto unknown banker named David Ricardo).[146] The resulting debate on money became, in John Kenneth Galbraith's words, "the most famous indeed in all history."[147] After a long series of intense parliamentary debates throughout the 1810s about the future of the currency, it was Napoleon's defeat in Waterloo in 1815 that eventually paved the way for a return to gold.

In the end the myth of gold – now enshrined in Ricardo's political economy – and the force of the merchant class, worried about its external trading position, got the upper hand. Parliament found against paper and ordered the return to gold. The experiment was

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attitude. This was, so Adler, "an attitude that is neither purely empirical nor purely speculative, but requires a receptivity for precisely that which, in a given state of affairs, is open to change." Adler, "Interpretative Essay," 13.

145 For eighty years prior to 1797 bullion had been fixed at Newton's rate of £4.25 per ounce of silver, so that even the modest movements in the price of bullion after 1797 upset many traders who continued to rely on gold to settle their external trades.

146 David Ricardo, *Pamphlets 1815-1823*, vol. IV, The Works and Correspondence of David Ricardo (Cambridge: Cambridge University Press, 1951).

147 Galbraith, *Money*, 36.

over. Or in any case it would be over once practice could be forced again to follow theory. In July 1819, it was decided to return to gold at the old exchange rate prior to its suspension in February 1797. This meant a harsh and uneven reduction in prices and wages with enormous distributive consequences in the event that the two did not fall fully in line with each other, as predictably they did not. Within two years wages were brutally brought down to pre-war levels while prices only followed slowly. This contractionary episode of 1819-1821 and the labor unrest it created is the context in which E.P. Thompson's account of *The Making of the English Working Class* acquires its salience, culminating in the "Peterloo" massacre of August 1819 in St. Peter's Field in Manchester.[148] On the back of Waterloo and Peterloo the Gold Standard could be re-introduced in 1821.

Ricardo's view had won out, conquering England in due course "as completely as the Holy Inquisition conquered Spain," as Keynes later sarcastically quipped in the *General Theory*.[149] Within less than a generation the nineteenth-century Gold Standard would acquire an air of quasi-religious self-evidence. For the next century it would be easy to forget that the return to gold masked a brief experiment with fiat money.[150] The memory of the potent political forces unleashed by fiat money was far too unsettling for those who had come to see gold as the natural moral anchor of the international trading

148 E. P. Thompson, *The Making of the English Working Class [1963]* (Toronto: Penguin Books, 1991), 669-699.

149 John Maynard Keynes, *The General Theory of Employment, Interest and Money* [1936], The Collected Writings of John Maynard Keynes, Vol. 7 (Cambridge: Cambridge University Press, 2013), 32.

150 On the distorted pro-gold historiography of the late nineteenth century, see Galbraith, *Money*, 54.

system. The political dimension of the episode, both at its inception and its ending, eventually faded away.[151]

In the *Philosophy of Right*, published in 1821 just as Britain returned to gold, Hegel swiftly dismissed Fichte's proposal to close the commercial state through a pure fiat currency.[152] Instead of drawing on Rousseau's social contract, Hegel built his system on the tenets of Scottish political economy that placed man first into civil society and only then in relation to the state. Echoing Aristotle's argument I reconstructed in Chapter 1, Hegel did acknowledge the significance of monetary commensurability for the state's ability to achieve "the justice of equality [*die Gerechtigkeit der Gleichheit*]" abstractly.[153] What disappeared from discussion, however, was Fichte's insistence that money's specific institutional form would have far-reaching consequences both for the nature of

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151 This was the case even (or perhaps in particular) for some of the closest observers and participants, such as Ricardo himself. "During the late discussions on the bullion question," Ricardo explained, "it was most justly contended, that a currency, to be perfect, should be absolutely invariable in value." David Ricardo, *Pamphlets 1815-1823*, vol. IV, The Works and Correspondence of David Ricardo (Cambridge: Cambridge University Press, 1951), 58. Galbraith, *Money*, 37. Needless to say, he was not against bank notes as such as long as they were fully backed by metal and convertible into it. But while this might be sound monetarism during times of peace it casually deleted the political dimension. "[A]s a theoretical economist," Keynes wrote, Ricardo was "apt to be blind to what was happening under his nose – for example, the fact that the country was at war." Keynes, *The General Theory*, 32. The trauma of war was better left unaddressed. It helped of course that some of the long war's most dramatic moments could retrospectively be read as heroic achievements. The landing of the four French ships in February 1797, for example, which at the time had been seen as the first expeditionary force of an enormous wave of French ships waiting in the Irish Sea subsequently became known as The Last Invasion of Britain, which it has remained to this day.

152 Georg Wilhelm Friedrich Hegel, *Elements of the Philosophy of Right*, ed. Allen W. Wood (Cambridge: Cambridge University Press, 1991), §240. See on this, in passing, Christopher Brooke, "Population, Pauperism, and the Proletariat: Rousseau, Malthus, and the Origins of the Social Question," *Paper for the CSPT Annual Meeting 'On the Economy'*, Yale University, May 8-9, 2015.

153 Hegel, *Elements of the Philosophy of Right*, §299.

the state and the kind of justice it would be able to administer. With money once more tied to gold, Pandora's box seemed closed again.

Forgotten along with the politics of money was the keen sense in which the events of February 1797 had excited the imagination of an entire generation of political observers and thinkers in Britain, on the European continent, and across the Atlantic.[154] Fiat money had crossed a hitherto unimaginable threshold of respectability and significance. It had undoubtedly arrived at the core of the modern state. What surfaced in February 1797 was the seemingly illusory but extraordinarily powerful force of modern credit money and the politics that accompany it. For two decades a debate unfolded across Europe about monetary politics, the virtues and vices of paper money, and the perilous double binds of states attempting to gain control over their financial lifeline. This is, I want to suggest, a neglected constitutive debate of the modern triangle of economy, state, and philosophy. The debate prolonged, in a different key, eighteenth-century controversies over the political effects of commerce and luxury. It became a touchstone for an entire generation of European thinkers, from Fichte to Adam Müller, Jean-Baptiste Say to Ricardo, and Burke to Novalis.

If the moment captured a distinctly new twist in the emergent modern political constellation of state and credit, it also witnessed the reconfiguration of the relationship between philosophy and history. For, as Habermas puts it, while earlier philosophy had sought to provide a true representation of the universal and eternal essence of the world, the modern temporal consciousness implied a different relationship to one's own

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[154] Ranging from Thornton, *An Enquiry into the Nature and Effects of the Paper Credit of Great Britain* to Adam Müller, *Versuch einer neuen Theorie des Geldes* (Leipzig and Altenburg: Brockhaus, 1816).

historical circumstances. "As soon as philosophy is obliged to reflect on its own historical position, theory – the grasp of truth – receives a temporal index. In the worldly horizon of the present, the source of fleeting, contingent, and ever more particular events, the context of justification becomes interwoven with the context of discovery."[155] If philosophy were nonetheless to raise its sight to the universal, it had to account for its own historical condition and penetrate the modern present.

I ended Chapter 2 by alluding to Locke's cautious skepticism concerning the incipient forces of public credit. Much of the recent literature on eighteenth-century political thought has traced the repercussions of the dramatic rise of public credit and commercial society. In this chapter I have instead turned to the rise of paper money during the British suspension period (1797-1821) and traced a number of debates on both sides of the Channel that extended deep into the German lands. Building on Burke and Kant as initial reference points, I turned to Fichte to argue that it was the suspension of gold and the introduction of paper fiat money by the most financially advanced nation in Europe that constituted the inescapable intellectual background for post-Kantian philosophy. While Kant and Hegel have long been recognized for their efforts to combine German philosophy with Scottish political economy, in this chapter I argued that it was the young Romantics who carried the main burden of this creative enterprise.

Arguments about reality and mere semblance, *Sein und Schein*, flourished in this context and left a deep mark on German idealism. The new possibilities of creating value by fiat produced a generational concern with authenticity and provoked playful amazement as much as it stoked dark suspicions of Mephistophelian foul play explored in

155 Habermas, "Conceptions of Modernity," 132.

Goethe's *Faust*.[156] The well-travelled road from Kant to Hegel leads through territory marked by monetary innovation and experimentation. The concept of negation (*Aufhebung*), for example, was first deployed by Fichte as a technical term in his discussion of credit money and national income accounting.[157] In the previous chapter I showed how Locke adapted classical tropes and analogies between language and coinage to develop his argument for an unalterable metal standard to stabilize linguistic fragility. The Romantics gave an entirely different twist to this theme by posing the question anew in a way that celebrated the poetic potential of paper money and the forces of collective imagination sustaining it. It was a creative updating of the longstanding metaphorical link between coins and words for a new age of fiat money that allowed Fichte and other Romantics to arrive at their insights.

By reconstructing the monetary dimension of Johann Gottlieb Fichte's political thought, I argued that his proposal of a closed commercial state as the completion of the social contract relied on an embrace of fiat money that drew its plausibility from the context of the British suspension period. With the events of 1797 it had become clear that money was an idea in the Kantian sense, neither tied to bullion nor adequately captured

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156 Note, in particular, the paper money scene in the second part of Goethe's *Faust*. Johann Wolfgang Goethe, *Faust. Der Tragödie zweiter Theil [1832]* (C. H. Beck, 1986). See also Goethe's novella *Das Mährchen* (1795) in which a hand gets used as collateral in a debt trade. Instead of signing the debt note, the debtor has to dip his hand into a river. It subsequently turns black, begins to shrink, and becomes – so to speak – an invisible hand. On the monetary dimension of the novella, see Fritz Breithaupt, *Der Ich-Effekt des Geldes: Zur Geschichte einer Legitimationsfigur* (Frankfurt am Main: Fischer, 2008), 82.

157 Fichte, *Closed Commercial State* (CC 1.6), 127; Fichte, *Geschlossene Handelsstaat*, 83. Another instance is Fichte's recurring pun on the homonyms of *die Waare* (commodities) and *das Wahre* (truth). Fichte, *Closed Commercial State* (CC 3.5), 180-181; Fichte, *Geschlossene Handelsstaat*, 125-126. See also Marc Shell, *Money, Language, and Thought. Literary and Philosophic Economies from the Medieval to the Modern Era* (Baltimore MD: Johns Hopkins University Press, 1993), esp. ch. 5.

as a mere representation thereof. Instead, money had revealed itself as a pure sign that only gained its value from being circulated. Like language, money was a complex cultural artifact whose validity and utility depended on its wide circulation and acceptance. Fichte's proposal to close the commercial state was quickly rejected – not just by Hegel – and subsequently largely forgotten, soon overshadowed by the vast architectonics of Hegel's synthesis. The emergence of fiat money during the 1790s confronted eighteenth-century theories of the state with notions of self-referentiality that could either be seen as the ultimate culmination of the social contract tradition or, as suggested by Adam Müller, its collapse.[158]

As the events of February 1797 had shown, money was not merely a natural measure of industriousness. Money could make the modern state just as it was in turn made by it. Money was not just the universal instrument of commerce but also a political institution of distribution and division, a medium of power and regulation, a mode of government. As circulating sovereignty, fiat paper money highlighted both the fluidity and the reach of the modern state as it broke out of earlier attempts to bind it by fixed representations. Not only did the events of February 1797 open Pandora's box of modern monetary politics, they also constituted a formative historical experience on the threshold of modernity. As many contemporary observers stressed, they had witnessed, and formed part of, a crucial twist within the unfinished project of modernity. Though suspension was itself suspended in 1821, fiat money would remain both constitutive and symptomatic of the modern frame we continue to inhabit.

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[158] Adam Müller, *Versuch einer neuen Theorie des Geldes* (Leipzig and Altenburg: Brockhaus, 1816).

– Chapter Four –

CONSTITUTIONALIZING MONEY
John Maynard Keynes and Monetary Reform

> Whatever they think of Keynes's monetary theories, most Americans would not trust any mortal man or group of men to 'manage' their currency without the gold standard to guide them. We here don't think men are good enough or wise enough to be given such power over their fellow men.
>
> —Russell Leffingwell[1]

4.1 Introduction

On Monday, July 13, 1931, John Maynard Keynes was on the prewar ocean liner RMS *Adriatic*, sailing home after a six-week-long visit to the United States. The trip, his first since 1917, had taken him to New York, Chicago, Boston and Washington DC.[2] Along the way, Keynes had given lectures on unemployment but he had above all been eager to learn more from his American interlocutors about the seriousness of the economic situation in America in the midst of the Great Depression. In Chicago, where he had been invited to give the annual Harris Foundation lectures in June, no fewer than

1 Russell Cornell Leffingwell to Basil Blackett, dated September 22, 1925. Leffingwell Papers, Yale University, Sterling Memorial Library, Manuscripts and Archives, Series I, Box 1, Folder 9. Leffingwell (1878-1960) served as assistant secretary of the US Treasury (1917-20) during the Versailles negotiations before joining J.P. Morgan as a partner in 1923, eventually becoming its chairman in 1943. I am grateful to Ted Fertik for bringing the letter to my attention.

2 John Maynard Keynes, *Activities 1929-1931: Rethinking Employment and Unemployment Policies*, ed. Donald Moggridge, The Collected Writings of John Maynard Keynes, Vol. 20 (Cambridge: Cambridge University Press, 2013) [CW 20], 589. Whenever hereafter citing from Keynes's *Collected Writings* I will add the volume number in square brackets.

fifty small banks had suspended payments over the previous two months.[3] But as Keynes familiarized himself with the American situation, things in Europe took an unexpected turn to the worse.

Already on May 11, two weeks before his departure for America, Austria's largest bank, the Viennese Credit-Anstalt, had collapsed. The resulting banking crisis threatened to spread from Austria to Germany. But while the German banking system initially held up well, an aggressive right turn in German foreign policy, culminating in the threat of defaulting on all reparations, triggered a run on the mark. During the first three weeks of June alone, the German Reichsbank lost $250 million in international reserves, which meant that it rapidly approached the minimum level required by the interwar gold standard.[4] In late June, President Hoover intervened to propose a one-year moratorium on all German reparations and international war-debt payments, an offer that managed to slight the French while failing to satisfy the German Right. On June 22, speaking two days after Hoover's moratorium had been announced, Keynes explained to his Chicago audience, "We are today in the middle of the greatest catastrophe – the greatest catastrophe due almost to entirely economic causes – of the modern world. I am told that the view is held in Moscow that this is the last, the culminating crisis of capitalism, and that our existing order of society will not survive it."[5] The eminent Governor of the Bank

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3 D.E. Moggridge, *Maynard Keynes. An Economist's Biography* (London: Routledge, 1992), 518-519.

4 Adam Tooze, *The Wages of Destruction: The Making and Breaking of the Nazi Economy* (London: Penguin, 2006), 16-20; Peter Temin and Thomas Ferguson, "Made in Germany: The German Currency Crisis of July 1931," *Research in Economic History* 21 (2003), 1-53. Keynes, *Activities 1929-1931: Rethinking Employment and Unemployment Policies* [CW 20], 553.

5 Keynes, "An Economic Analysis of Unemployment." Keynes, *Activities 1929-1931: Rethinking Employment and Unemployment Policies* [CW 20], 554-555. As cited

of England, Montagu Norman, wrote a similarly worded note to his colleague at the Banque de France, stating that "unless drastic measures are taken to save it, the capitalist system throughout the civilized world will be wrecked within a year."[6]

On July 13, as Keynes was crossing the Atlantic on his way back to London, two more dominoes fell. The financial drama that had begun to unfold earlier in the year reached another peak. Over the past weeks France had protested the inadequate security provisions of the Hoover moratorium, dragging its feet and delaying approval of the moratorium till July 6. The Reichsbank meanwhile continued to hemorrhage reserves. Slowly but surely the currency crisis began to gnaw at the entire German banking system as money drained abroad. On the morning of July 13, as the stock market opened again after the weekend, a chain of defaults in the textile industry rippled through the German market and in the course of the day brought down the giant Danat Bank. To contain the fall-out, Chancellor Brünning declared an emergency bank holiday, suspended payments on Germany's short-term foreign debt (the largest in the world), and issued a new round of emergency decrees. The City of London, which had lent heavily to Germany, suddenly found its claims frozen. As if that were not enough, the same day the British government was scheduled to publish the long awaited Report of the Macmillan Committee on

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in Liaquat Ahamed, *Lords of Finance: The Bankers Who Broke the World* (London and New York: Penguin, 2009), 4. In his analysis of the moratorium, Keynes singled out the substantial sacrifice it demanded of France. President Hoover, Keynes explained, "will soon be faced with the question of whether he is prepared to modify his plan to meet the French point of view."

6 Parts of the letter appeared in "Germany: Ein' Feste Burg," *Time* (July 27, 1931). As cited in Ahamed, *Lords of Finance*, 392. Summarizing the year's events for the newsletter of the Royal Institute of International Affairs, Arnold Toynbee reported: "In 1931, men and women all over the world were seriously contemplating and frankly discussing the possibility that the Western system of Society might break down and cease to work." Ahamed, *Lords of Finance*, 4-5.

Finance and Industry. When the numbers finally became known on Monday, the report's revelation of Britain's unexpectedly large short-term international indebtedness, in particular its exposure to Germany, spooked the foreign exchange markets. Britain now had to brace itself for yet another round of painful and perhaps politically impossible cuts as expenditure would have to be pruned even more. But how was Britain going to support its banks given the constraints of the gold standard? The bets about Britain's future on gold were on. With Keynes at sea, sterling suddenly dropped sharply.

Still aboard his ship, Keynes prepared a long memorandum on the economic conditions he had observed in the United States, in particular the policy of the Federal Reserve, and what they implied for the escalating European situation. Immediately upon disembarking he distributed the note to the Economic Advisory Council.[7] The prospect of even more budget cuts in Britain was hardly appealing on its own terms. In light of the German meltdown and the tense political situation, it was explosive. By August, the resulting budget crisis forced Prime Minister Ramsay MacDonald to abandon his Labour Government in order to join the Tories and the Liberals in a new National Government. As Keynes commented in one of his monthly commentaries on the economic situation, "We are certainly standing in the midst of the greatest economic crisis of the modern world."[8] Already during his American trip, far from being cut off from European events, Keynes had in fact served as a hub of financial news, updating the Prime Minister and the Treasury on the latest developments from both sides of the Atlantic based on his meetings

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7 Keynes, *Activities 1929-1931: Rethinking Employment and Unemployment Policies* [CW 20], 561-588.

8 As quoted in Bradley W. Bateman and Robert W. Dimand, "John Maynard Keynes Narrates the Great Depression: His Reports to the Philips Electronics Firm," Unpublished working paper, *L'Association Charles Gide pour l'étude de la pensée économique*, Strasbourg (April 15, 2016).

with senior American bankers, central bankers, and politicians.[9] By early August, Keynes was attempting to influence government policy more directly. Exchanging letters with the Prime Minister, who had sought his council, Keynes warned that any additional cuts – if implemented – would amount to "a most gross perversion of social justice."[10] To make further sacrifices for the sake of gold meant defending a goal that was rapidly moving out of reach. This was not only futile but perverse. "[I]t is now virtually certain," Keynes explained to MacDonald, "that we shall go off the existing parity at no distant date. ... [W]hen doubts, as to the prosperity of a currency, such as now exist about sterling, have come into existence, the game's up."[11] As he put it in another letter to MacDonald a week later, "there will be a crisis within a month unless the most drastic and sensational action is taken."[12] The next four weeks only confirmed Keynes's predictions.

With Germany in free fall and sterling under pressure, throughout August and early September the Bank of England was forced to borrow $650 million abroad, humiliatingly supplicating from the Banque de France, flush in gold, as well as the Federal Reserve.[13] These were dramatic times and not everyone proved equal to them. By

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9 John Maynard Keynes, *Activities 1922-1932: The End of Reparations,* ed. Donald Moggridge, The Collected Writings of John Maynard Keynes, Vol. 18 (Cambridge: Cambridge University Press, 2013) [CW 18], 352-355. Keynes, *Activities 1929-1931: Rethinking Employment and Unemployment Policies* [CW 20], 553.

10 Keynes to Ramsay MacDonald, dated August 5, 1931. Keynes, *Activities 1929-1931: Rethinking Employment and Unemployment Policies*, 590.

11 Keynes to Ramsay MacDonald, dated August 5, 1931. Keynes, *Activities 1929-1931: Rethinking Employment and Unemployment Policies* [CW 20], 591-593.

12 Keynes to Ramsay MacDonald, dated August 12, 1931. Keynes, *Activities 1929-1931: Rethinking Employment and Unemployment Policies* [CW 20], 594.

13 Ahamed, *Lords of Finance*, 4. Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919-1939* (New York and Oxford: Oxford University Press, 1992), 283-284.

August 15, the stress had become too much for Montagu Norman. As the Bank of England was forced to report, Norman had suffered a nervous breakdown "as a result of the exceptional strain to which he has been subjected in recent months." He would temporarily leave for Canada. "Acting on medical advice he has abandoned all work and has gone abroad for rest and change." Rumor had it in London that Norman, before leaving, had ordered ration books to be printed in case the monetary system collapsed in its entirety and the country was forced to subsist on barter for a while.[14]

As MacDonald's National Government desperately attempted to maintain the parity of sterling, Keynes began to vent his disagreement with the official line more and more publicly. Writing in the *New Statesman* in late August he explained that the government line had become quite simply "unacceptable."[15] As he admitted in private, the situation was driving him into despair. "To read the newspapers just now is to see Bedlam let loose. Every person in the country of super asinine propensities, everyone who hates social progress and loves deflation, feels that his hour has come, and triumphantly announces how, by refraining from every form of economic activity we can become very prosperous again."[16] For Keynes, it was clear that going off gold and devaluing was the only solution for Britain. Instead, on Wednesday, September 16, the government introduced yet more cuts before Parliament, which left Keynes fuming. Talking to a group of Parliamentarians the same day, he described the measures as "the

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14 Ahamed, *Lords of Finance*, 4-5.

15 Keynes, "Notes on the Situation," *The New Statesman and Nation* (August 29, 1931). Keynes, *Activities 1929-1931: Rethinking Employment and Unemployment Policies* [CW 20], 596-598. Moggridge, *Keynes*, 525.

16 Keynes to Walter Case, dated September, 14, 1931. Keynes, *Activities 1929-1931: Rethinking Employment and Unemployment Policies* [CW 20], 603-605.

most wrong and foolish things which Parliament has deliberately perpetrated in my lifetime."[17] Despite (or rather because of) the cuts, pressure on sterling mounted further in the course of Thursday and Friday as newspapers reported that soldiers on Royal Navy warships stationed at Invergordon were staging a 'mutiny' in protest against the cuts.[18]

In the evening of Friday, September 18, after the Bank of England had lost another £18 million in a single day of attempting to stem the tide, the government called an emergency meeting. The decision was made to suspend gold convertibility the next day after markets closed at noon. On Sunday, Ramsay MacDonald explained the suspension in a public broadcast, and on Monday, the necessary legislation was rushed through Parliament.[19] As former Labor Minister Sidney Webb famously demurred, "Nobody told us we could this."[20] Keynes was more than elated. His friends found him in a state of extreme exultation, talking politics and economics "like people in the war," as Virginia Woolf put it.[21] "There are few Englishmen," Keynes famously cheered, "who do not rejoice at the breaking of our golden fetters."[22] "We have regained our freedom," he

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17 Keynes, "Notes for a speech to Members of Parliament, 16 September 1931," in Keynes, *Activities 1929-1931: Rethinking Employment and Unemployment Policies* [CW 20], 608.

18 Moggridge, *Keynes*, 526.

19 The same day, Monday, September 21, Keynes was invited to join the Economic Advisory Council for a series of meetings on the new situation. Moggridge, *Keynes*, 527-528.

20 A.J.P. Taylor, *English History, 1914-1945* (Oxford: Oxford University Press, 1965), 297. Also paraphrased in Fred Hirsch, *Money International* (London: Penguin, 1969), 20.

21 As quoted in Moggridge, *Keynes*, 527. As the immediate exultation wore off, his acquaintances found Keynes in "a great state of inward satisfaction," enjoying in Beatrice Webb's words, "a febrile self-complacency over the fulfilment of his prophecy."

22 John Maynard Keynes, "The End of the Gold Standard (September 27, 1931)," in *Essays in Persuasion* (London and New York: W. W. Norton & Company, 1963), 288.

exulted.[23] Britain going off gold came as a shock both to the global financial system and, more generally, to the world's economic imagination. Britain was not just any country, the pound sterling not just any currency. Ever since the end of the suspension period in 1821, and more formally since the gold exchange standard of 1871, Britain had been the anchor of the global financial system. With the world's leading currency unmoored, the entire system was in question. The US was still on gold but by the end of September twelve countries had followed Britain's example. Eleven more had devalued but retained a gold peg at the new parity.[24]

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Historians of the twentieth century have described the crisis of 1931 as a decisive inflection point in world history, the ultimate entwined economic and political crisis.[25] These were the events that set into motion the tragic death spiral of the Weimar Republic and that led to the eventual collapse of the gold standard and with it of interwar internationalism. Among the different crisis moments that punctuate competing narratives – whether of the international banking system or of European security – one in particular needs to be accorded analytical and chronological primacy: the events of 1931, both in Germany and Britain, reflected first and foremost the increasingly contradictory claims of

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23 Keynes, "Preface," ix.

24 Tooze, *The Wages of Destruction*, 20.

25 Adam Tooze, *The Deluge: The Great War and the Remaking of Global Order 1916-1931* (New York: Viking, 2014). Ed Conway, *The Summit: Bretton Woods, 1944. J. M. Keynes and the Reshaping of the Global Economy* (New York: Pegasus Books, 2015), 80. "The real low point had been the summer of 1931, when Austria's oldest and largest bank, Credit-Anstalt, collapsed." (80)

gold and political will.[26] Although bank failures were the most prominent aspect of the crisis in Germany, these failures had themselves been triggered by a run on the currency after a series of fateful political decisions, as the German government sought to abrogate its international obligations.[27] Similarly, what drove Britain first into extreme austerity and a governmental crisis and then into a sudden reversal of its position was the attempt to keep the pound sterling on gold for as long as possible before eventually letting it float. More than anything else, the events of 1931 thus illustrate the tensions between the potentially contradictory imperatives of the gold standard (and with it political internationalism) and domestic economic recovery (and with it democratic politics).

Based on the perspective self-consciously fashioned by Keynes himself at the time, the British suspension of convertibility on September 19, 1931 easily appears as the final vindication of Keynes's critique of the gold standard and his insistence on the need for monetary reform. This has meant that Keynes is conventionally seen as having straightforwardly taken the side of domestic policy autonomy.[28] The crisis-ridden switch from the gold exchange standard of the interwar years to the deliberately controlled national monetary standard after 1933 constitutes in this sense a powerful illustration of what David Grewal has described as "the use of sovereignty to command and reengineer

26 This is the key argument of Barry Eichengreen's Keynesian-Polanyian argument in his *Golden Fetters*.

27 Temin and Ferguson, "The German Currency Crisis of July 1931," 33. It was in this context of the summer of 1931 that Carl Schmitt expanded and re-issued *The Concept of the Political* to align himself with the new right turn by emphasizing the "primacy of foreign policy" and by adding remarks on the domestic political situation that defended the legitimacy of rule by presidential decree. Reinhard Mehring, *Carl Schmitt: A Biography*, trans. Daniel Steuer (Malden: Polity, 2014), 242.

28 Again, the classic, and vastly influential, account of this is Eichengreen, *Golden Fetters*.

the relations of sociability on behalf of a democratic polity."[29] In this chapter, I will first affirm this aspect of the conventional narrative by situating it within Keynes's broader intellectual trajectory and his call for the constitutionalization of money.

But I will also complicate Keynes's critique of gold by recovering his broader liberal vision of the politics of money and in particular the international dimension of his monetary and political thought. While Keynes is rightly associated with the struggle to regain national control over the monetary forces of sociability, he was at the same time always more aware of the attractions of gold and the need for an international solution than either his critics or defenders often care to admit. Keynes's championing of national policy autonomy and his dismissive critique of the interwar gold exchange standard thus only ever formed one part of his larger liberal vision that was receptive both to the appealing promises and necessary constraints of economic and political internationalism. Far from being the politically-naïve exponent of national policy autonomy, Keynes was keenly attuned to the international politics of money and the threatening dynamics of monetary and military competition.

In his letters to MacDonald from August 1931, Keynes not only proposed going off gold; he also sketched an international solution for life after the gold standard. After all, Britain was far from alone in suffering. Much of the world found itself in a similarly uncomfortable position of having to choose between an international currency standard that no longer fitted and the promises of monetary autonomy that at the same time threatened to tear up what was left of political internationalism. In the summer of 1931, Keynes was still hoping for the possibility of an international version of reflation, ideally

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[29] David Singh Grewal, *Network Power: The Social Dynamics of Globalization* (New Haven: Yale University Press, 2008), 103.

for the world at large but otherwise at least for the sterling bloc.[30] As Keynes advised, where he in MacDonald's position "I should seek forthwith to win hegemony of a new Currency Union by inviting all Empire countries to join us in adhering to a new currency unit. … I should further have it in mind to invite also at some stage all South America, Asia, Central Europe, Italy and Spain – indeed anyone who felt inclined to come in."[31] There was no way around a swift and substantial devaluation, but this would have to be immediately followed up by a new international currency union. Only such a twin strategy offered a modicum of hope for converting disaster into success.

Torn between the promises of domestic policy autonomy and the benefits of international cooperation and coordination, Keynes's constitutionalization of money resisted a straightforward solution one way or the other. As Keynes himself admitted in correspondence immediately after the British exodus from the gold standard, "[t]here are a good many possible alternative schemes and I am not at the moment very clear in my own mind which I prefer."[32] "I find it difficult to make up my mind just what to do."[33] In

30 It was the German turn away from France in the summer of 1931 that ruined this possibility for the Continent. Temin and Ferguson, "The German Currency Crisis of July 1931," 34.

31 Keynes to Ramsay MacDonald, dated August 5, 1931. Keynes, *Activities 1929-1931: Rethinking Employment and Unemployment Policies* [CW 20], 592.

32 Keynes to Frederick Leith-Ross, dated October 14, 1931. John Maynard Keynes, *Activities 1931-1939: World Crises and Policies in Britain and America*, ed. Donald Moggridge, The Collected Writings of John Maynard Keynes, Vol. 21 (Cambridge: Cambridge University Press, 1982), 2. Leith-Ross was then working for the British Treasury and involved in developing new monetary arrangements.

33 Keynes to Frederick Leith-Ross, dated October 20, 1931. Keynes, *Activities 1931-1939: World Crises and Policies*, 4. By mid November, Keynes sent a paper entitled "Notes on the Currency Question" to Leith-Ross (as well as to the Governor of the Bank of England and Hubert Henderson, the Liberal politician and then Joint Secretary to the Economic Advisory Council). Keynes, *Activities 1931-1939: World Crises and Policies*, 16-27.

the *Treatise on Money* (1930) Keynes had laid out the dilemma theoretically and sketched the outlines of a potential international solution. In the 1930s he found himself in its midst concretely. As Keynes recognized, as soon as the pound and other currencies were liberated from gold the question arose almost immediately of whether and how the unchained currencies could be stabilized again at adjusted parities. Far from revealing a parochial economic nationalism, the early 1930s show Keynes in full appreciation of the international dilemma of monetary politics.

In the previous two chapters on Locke and Fichte I raised a fundamental dilemma of the international politics of money. As Locke emphasized, a single global currency standard, like that provided by gold or silver, furnished a cosmopolitan tool of international trade and political coordination. But as Fichte stressed, the resulting constraints not only heavily curtailed the ability of states to align their currency with domestic economic justice, they also compounded the hierarchy and exploitation of the international state system and colonization. Fichte's proposal of national fiat money promised in this context to liberate the currency politically domestically while bringing an end of economic exploitation abroad. If domestic control over the currency risked competitive devaluations and economic strife, Fichte concluded from this the need to close the commercial state.

Both paths come with powerful visions of a peaceful world based on monetary justice. In Locke's case tying money to metal value meant that the promissory pledge of the inviolability of value, and thereby property, was preserved and coupled with a providential vision of global trade. Fichte's embrace of national fiat money radically inverted this vision even where it was based on similar underlying values of monetary justice and international peace. What differed, however, was the end and nature of monetary justice as well as the means of achieving international peace. Monetary justice, for Fichte, did not simply imply the enforcement of private contracts but the realization of a more fundamental social contract that replaced both legal and economic anarchy with a rational system based on civic equality and the right to work. Internationally, this required and made possible strict limits on the extent of foreign trade. In order to escape economic anarchy domestically, the commercial state had to be closed externally. This was on Fichte's telling not a sad necessity but the triumphant extension of the social contract into economic life and the external guarantor of international peace that would finally put an end to colonial exploitation. In this chapter I turn to Keynes as a guide to the tensions between these two competing visions of monetary justice by considering how Keynes's own shifting conception of a liberal constitutional theory of money sought to reconcile an appreciation for national policy autonomy with the promises of international trade and coordination.

If the first three chapters on Aristotle, Locke, and Fichte recovered a neglected monetary dimension to the political thought of three canonical political thinkers, in this chapter I proceed in the opposite direction. John Maynard Keynes was one of the undisputed monetary sages of the twentieth century. But Keynes's political thought is rarely, if ever, considered by political theorists or historians of political thought. If he is invoked at all, he appears most likely as an adjective, vaguely – and misleadingly – gesturing toward either the postwar welfare state or arguments for fiscal stimulus.[34] The

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[34] For notable, if partial and problematic, exceptions, see Roger E. Backhouse and Bradley W. Bateman, *Capitalist Revolutionary: John Maynard Keynes* (Cambridge MA: Harvard University Press, 2011). Gilles Dostaler, *Keynes and His Battles* (Cheltenham,

Keynes I have instead in mind is Keynes as a political thinker who asked in the interwar years what a new liberalism might look like that could successfully negotiate the relation between the economic and the political and who on this basis constructed a liberal constitutional theory of money. Keynes was not just one of the foremost economists of the twentieth century. He was also an eloquent and prolific political commentator, an active campaigner for the British Liberal Party, and a perceptive theorist of what it might mean to think the political and the economic together without reducing one to the other. Moreover, Keynes did so with an explicit attention to both the domestic politics of democratic opinion formation and the international politics of military and economic competition.

The disagreement between Locke and Fichte has raised an obvious but profound question: If money is a political institution as well as an economic tool, does it follow that we can or should straightforwardly "politicize" it? Keynes, I will argue, was keenly aware of both sides of this argument, of the political dimension of currency with its need for political justification and control as expressed in Fichte, and of Lockean arguments insisting on the need to remove money from direct political interference. Keynes suggested in response to constitutionalize money. If currency was, as Jean Bodin had put it, a political institution analogous to law, Keynes refined the analogy by pointing out that it extended more appropriately to *constitutional* law rather than law as such. As a constitutional institution, currency, like constitutional law, is committed to the public

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UK: Edward Elgar, 2007). Sally Herbert Frankel, *Two Philosophies of Money. The Conflict of Trust and Authority* (London: Basil Blackwell, 1977). Roberta R. Schaeffer and David L. Schaeffer, "The Political Philosophy of J. M. Keynes," *Public Interest* 71 (Spring 1983). Dismissive statements about Keynes's political thought and judgment are by contrast easy to come by. See, for example, Paul Davidson, "Money and the Real World," *The Economic Journal* 82, no. 325 (Mar., 1972), 101-15.

good and derives its legitimacy from the political covenant that also grounds the state. But it is nonetheless removed by at least one degree from popular politics since it relies on the interpretation and management by a group of experts who have to carefully navigate between democratic legitimacy and the political use of their expertise. Keynes's liberalism is in other words in principle sympathetic to the depoliticization of economic relations but nonetheless recognizes that depoliticization is itself a political project that requires justification and cannot do without critique.

4.2 Naturalistic Illusion

Today, Karl Polanyi's *The Great Transformation* (1944) has rightly become the classical account of the political underpinnings of economic life.[35] In his study, Polanyi masterfully illustrated how the rise of commercial society – as a sphere at once made by and protected from state power – not only entailed the gradual emergence of a quasi-natural conception of markets in land and labor but also the idea of money as outside of politics. Much of the recent revival of Polanyi scholarship has focused on the commodification and disembedding of labor and land. But for Polanyi, having lived through the monetary upheavals of the interwar period, the depoliticization of currency formed an equally important strand in his narrative. The disembedding of labor, he consistently argued, was mirrored by the depoliticized naturalization of the politics of currency. As a result, "social protection and interference with the currency were not

[35] Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, 2nd ed., with a new introduction by Fred Block and a foreword by Joseph E. Stiglitz (Boston: Beacon Press, 2001).

merely analogous but often identical issues."[36] Just as labor and land had been disembedded and commodified, so had the political institution of currency been naturalized and depoliticized into a metal standard outside of politics. The fierce debates over monetary policy and the monetary order that marked the interwar years illustrated from this perspective the unraveling of the untenable great transformation.

Already before World War I, Keynes had worked out a remarkably similar argument against the naturalistic illusion of markets. Keynes, even more than Polanyi, did so through a sustained critical engagement with the political thought of Edmund Burke. In 1901, soon to arrive at King's College, Cambridge to read Classics, Mathematics, and History, Keynes bought a twelve-volume edition of Edmund Burke's works.[37] Burke quickly became a favorite of his. Indeed, Keynes's admiration went so far, that in February 1902 he appears to have read Burke's speech on the East India Bill in period costume at a speech contest.[38] Throughout his student years in Cambridge, Keynes devoted an enormous amount of time to Burke, taking extensive notes and developing an appreciation for Burke's mind and style that would never leave him.[39] This

36 Polanyi, *The Great Transformation*, 234-235.

37 Dostaler, *Keynes and His Battles*, 87. Keynes's Burke edition was Edmund Burke, *The Works of the Right Honourable Edmund Burke in Twelve Volumes* (London: John C. Nimmo, 1899).

38 Roy Harrod, *The Life of John Maynard Keynes* (London: Macmillan, 1951), 51. Also mentioned in Dostaler, *Keynes and His Battles*, 87. Two years later, in November of 1904, with Lloyd George in attendance as a special guest, Keynes was elected Vice President of the Cambridge Union. Neville Keynes's Diary (November 29, 1904). As cited in Carlo Cristiano, *The Political and Economic Thought of the Young Keynes: Liberalism, Markets and Empire* (Abingdon and New York: Routledge, 2014), 44, 65n27.

39 On Burke's influence on Keynes see also David Andrews, *Keynes and the British Humanist Tradition: The Moral Purpose of the Market* (Abingdon and New York: Routledge, 2010), 74 and Vincent Barnett, *John Maynard Keynes*, Routledge Historical Biographies (Abingdon and New York: Routledge, 2012), 124. "Keynes had accumulated

engagement with Burke culminated in a long essay, close to a hundred typed pages, on "The Political Doctrine of Edmund Burke."[40] Having worked his way through Burke's writings and consulted every other major source about what was known about his life, Keynes sought to reveal behind Burke's seemingly shifting political positions a "consistent and coherent body of political theory."[41] The essay was written in the style, clearly indebted to Burke, that would mark all of Keynes's later works. It mixed candid admiration with acutely perceptive critique as it set out to reconstruct Burke's philosophical and political principles in light of their changing contexts and applications. The essay won the University Members Prize in English at Cambridge and it remains – despite it remaining unpublished and excluded even from his thirty volume *Collected Writings* – a crucial text for understanding Keynes's political thought.[42]

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significant exposure to political philosophy, as represented by his study of the writings of Edmund Burke."

40 John Maynard Keynes, "The Political Doctrine of Edmund Burke," JMK Papers, King's College, Cambridge, UA/20/3/1-89 [hereafter: EB].

41 JMK Papers, King's College, Cambridge, UA/20/3/4. This insistence on coherence in the face of seemingly obvious tensions, such as his defense of the American Revolution and fierce resistance to the French, has only comparatively recently received interpretative vindication in Burke scholarship. For two outstanding recent contributions in this vein, see Richard Bourke, *Empire and Revolution: The Political Life of Edmund Burke* (Princeton: Princeton University Press, 2015), as well as David Bromwich, *The Intellectual Life of Edmund Burke: From the Sublime and Beautiful to American Independence* (Cambridge MA: Harvard University Press, 2014).

42 From the wave of revisionist scholarship on the young Keynes, concerning Burke and political philosophy, see in particular Cristiano, *Political and Economic Thought of the Young Keynes*, 55-61. Andrews, *Keynes and the British Humanist Tradition*, 76-78. See also Adelino Zanini, *Economic Philosophy: Economic Foundations and Political Categories*, trans. Cosma E. Orsi (Oxford and Berne: Peter Lang, 2008), 281-374. Even Skidelsky has concluded that Keynes's account of Burke's thought is "generally consistent with his general philosophy and later practice." Robert Skidelsky, "Keynes's Political Legacy," in *Keynes and Public Policy after Fifty Years*, ed. Omar F. Hamouda and John N. Smithin (Aldershot: Edward Elgar, 1988), 10. Despite this acknowledgement of the impact of Burke's political thought on Keynes, Skidelsky reads into Keynes's

In Burke, Keynes found a view of politics as a subservient means for the realization of higher goals. Burke, Keynes explained, "did not look to establish his ultimate goods by political considerations; those he sought for elsewhere; the science of politics is with him a doctrine of means, the theoretical part of a device intended to facilitate the attainment of various private goods by the individual members of a community."[43] Skidelsky in particular has emphasized this aspect of instrumentality, often in order to downplay the political interests of the young Keynes.[44] On Skidelsky's reading this meant paradoxically that what Keynes found so attractive in Burke's "unparalleled political wisdom" was precisely that it rendered a theory of politics subservient to an ethical ideal of utilitarian expediency.[45] In some sense it is of course right that Keynes agreed with Burke in regarding politics as properly concerned with means not ultimate ends. But to deduce from this position – true as it is for Aristotle as for Burke – a disinterest or denigration of politics would be to misunderstand profoundly the relation of means and ends in politics.

More concretely, what Keynes took from Burke was, besides a supremely eloquent style, a pronounced emphasis on expediency. "In the maxims and precepts of the art of government," Keynes summarized Burke's doctrine, "expedience must reign

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essay "the first flush of excitement" with G.E. Moore as well as the intuitions behind his later probability theory. Instead of crediting the Burke essay for having made Keynes receptive to these subsequent influences and interests, Skidelsky retrojects them into the Burke essay.

43 JMK Papers, King's College, Cambridge, UA/20/3/6 [EB 6]. On this see also Andrews, *Keynes and the British Humanist Tradition*, 74.

44 Though Skidelsky had to concede that "the nearest Keynes got to expounding a theory of politics was in an undergraduate essay on Edmund Burke." Skidelsky, "Keynes's Political Legacy," 9.

45 Skidelsky, "Keynes's Political Legacy," 10.

supreme."[46] Coupled to this philosophical appreciation for political expediency was a profound skepticism toward the suggestion that present harm, in whatever form, could ever justify uncertain future gain. "In regard to the remaining point – his timidity in introducing present evil for the sake of future benefits – he is emphasizing a principle that is often in need of such emphasis. Our power of prediction is so slight, our knowledge of remote consequences so uncertain that it is seldom wise to sacrifice a present benefit for a doubtful advantage in the future."[47] It was thus in the context of the Burke essay that Keynes first tried out his intuition about the futility of the long run. As Keynes quipped in the *Tract on Monetary Reform* twenty years later: "[T]his *long run* is a misleading guide to current affairs. *In the long run* we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean is flat again."[48] Though, interestingly, what had been a critique of revolutionary politics in Burke became in Keynes's hands later a critique of interwar austerity politics that demanded economic sacrifices in the present in the name of uncertain economic benefits in the future.

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46 JMK Papers, King's College, Cambridge, UA/20/3/36. [EB 36]

47 JMK Papers, King's College, Cambridge, UA/20/3/14. [EB 14]

48 John Maynard Keynes, *A Tract on Monetary Reform* (London: Macmillan, 1923) [CW 4], 65. See also Keynes's comments in two other contexts: "I have said in another context that it is a disadvantage of 'the long run' that in the long run we are all dead. But I could have said equally well that it is a great advantage of 'the short run' that in the short run we are still alive. Life and history are made up of short runs. If we are at peace in the short run, that is something. The best we can do is put off disaster, if only in the hope, which is not necessarily a remote one, that something will turn up." John Maynard Keynes, *Social, Political and Literary Writings*, The Collected Writings of John Maynard Keynes, Vol. 28 (Cambridge: Cambridge University Press, 1982) [CW 28], 62. "The theory that 'to get our way in the long run' we must always yield in the short reminds me of the bombshell I threw into economic theory by the reminder that 'in the long run we are all dead'." Keynes, *Social, Political and Literary Writings* [CW 28], 224-225. As cited in Moggridge, *Keynes*, 612; 667.

Despite his admiration for Burke, in the essay Keynes developed at the same time a biting critique of what he took to be Burke's economic naturalism and laissez faire – as well as, relatedly, Burke's defense of the economic necessity of enduring and deepening inequality. This line of critique remained a lifelong principle of Keynes that characterized all his subsequent writings, often retaining the very wording first developed in the Burke essay. In response to Burke's quasi-Smithian defense of "natural order" and "natural commercial liberty," Keynes constructed an account of economic life that distanced itself from "the naturalistic illusion" of economic liberty.[49] The problem, for Keynes as later for Polanyi, was how to think economic order after its naturalistic and theological pretensions had been stripped away. As Keynes stressed, the economic laissez faire of classical liberalism had been revealed as little more than a highly dubious metaphysical faith. It was palpably not true that individuals possessed a "natural economic liberty." As Keynes elaborated in 1926,

> Let us clear from the ground the metaphysical or general principles upon which, from time to time, laissez-faire has been founded. It is not true that individuals possess a prescriptive 'natural liberty' in their economic activities. There is no 'compact' conferring perpetual rights on those who Have or on those who Acquire.[50]

A similar skepticism extended to Burke's invocation of natural order.[51] "The world is not so governed from above that private and social interest always coincide," Keynes explained. "It is not a correct deduction from the principles of economics that enlightened

[49] JMK Papers, King's College, Cambridge, UA/20/3/21-37 [EB 21-37]. On Burke and the *assignats*, see ch. 3.

[50] Keynes, "The End of Laissez-Faire (1926)," 287-288.

[51] JMK Papers, King's College, Cambridge, UA/20/3/23 [EB 23].

self-interest always operates in the public interest."[52] To believe that private and social interest coincided in commerce was not only a fantasy designed to elide politics but also an instance of dubious economic reasoning.[53]

4.3 A Managed Currency

Curiously, in the pre-war essay on Burke, Keynes exempted money and the gold standard from his call for de-naturalization. Only in the wake of World War I, after the collapse of the gold standard, did Keynes begin to subject money to the same critique of rationalization that had characterized his argument against Burke concerning commerce as such. World War I had marked the collapse of the gold standard that had dictated the terms of the first wave of globalization during the long nineteenth century. The resulting political and economic convulsions that rippled through Europe in the wake of the War had a pronounced monetary dimension.[54] To begin with, the inflation experienced during the war was on a scale so vast and unprecedented as to constitute "in itself one of the most significant events in the economic history of the modern world."[55] The only possible historical analogy, to the suspension of gold during the Napoleonic Wars, paled in comparison.

52 Keynes, "The End of Laissez-Faire (1926)," 287-288.

53 JMK Papers, King's College, Cambridge, UA/20/3/21-37 [EB 21-37].

54 Tooze, *The Deluge*, 37, 212-215, 247 (table 6), 353-373. See also Ted Fertik and Adam Tooze, "The World Economy and the Great War," *Geschichte und Gesellschaft* 40, no. 2 (2014), 214-238; esp. 222-225. "The huge credit-fuelled demand unleashed by the combatants raised prices everywhere. ... If there is a single experience that truly gives concrete meaning to the idea of a single unitary world economy in World War I, it was the ubiquity of inflation. This was a 'shock of the global' every bit as intense as the one that hit the world economy in the 1970s." (223)

55 Keynes, *A Tract on Monetary Reform*, 2.

Wartime inflation was only a first hint of what was to follow. As revolutions, constitutional crises, and civil wars swept across Europe, several countries saw wartime inflation accelerate, soon approaching hyperinflationary levels. Others meanwhile hoped to avoid this fate by moving in the opposite direction and steering into a deflationary vortex with barely less troubling economic and political results. Few managed to stay clear of either scenario. A world of deeply interdependent economies that had not too long ago been held together by golden chains had given way to an explosive mix of radically divergent monetary paths. While American political thought throughout the nineteenth century was saturated by monetary politics – ranging from debates about the monetary chaos of the first half of the century, to the role of the greenback during and after the Civil War, to the free silver populism of the final quarter of the century – the monetary instability triggered by the Great War was a profound shock to many Europeans who had come to take for granted the certainties of the nineteenth century.[56]

Keynes saw the dangers of both inflation and deflation. He was deeply troubled by the economic, societal, and political effects of escalating double-digit inflation, as well as the less overt but all the more insidious threat of a deflationary spiral that rendered economic life stale and reduced politics to strife. "The process [of inflation]," he argued in 1921, "engages all the hidden forces of economic law on the side of destruction, and

[56] For two overviews of American nineteenth century monetary politics, see Stephen Mihm, *A Nation of Counterfeiters: Capitalists, Con Men, and the Making of the United States* (Cambridge MA: Harvard University Press) and Jeffrey Sklansky, *The Money Question: Currency in American Political Culture, 1700-1900* (Chicago University Press, forthcoming). See also Polanyi's comment: "But while in nineteenth-century America the bickering of populists and greenback parties with Wall Street magnates were endemic, in Europe the charge of inflationism became an effective argument against democratic legislatures only in the 1920s, with far-reaching political consequences." Polanyi, *The Great Transformation*, 235.

does it in a manner which not one man in a million is able to diagnose."[57] Where inflation wiped out creditors and threatened to pave the way toward revolution, deflation punished debtors and turned economic life into a protracted zero sum game at the brink of civil war. In his notes, we can see Keynes at this time beginning to sketch book proposals under titles such as "The Monetary Disorder of Society," or the "Social Significance of Money."[58] This was the postwar context in which Keynes famously attributed to Lenin (perhaps mistakenly) that there was no better way to bring capitalism to its knees than "to debauch" the currency.[59] Both society and capitalism, Keynes explained, presumed "a stable measuring-rod of value." Neither could function very effectively – perhaps not at all – without monetary stability.[60] Though stability was undoubtedly the best path, Keynes nonetheless weighed up the deleterious consequences of inflation and deflation respectively and concluded that when forced to choose inflation might be the lesser evil.[61]

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57 Keynes, "Cancellation (1921)," 57.

58 JMK Papers, King's College, Cambridge, EC/7/2/21; EC/7/2/32.

59 John Maynard Keynes, *The Economic Consequences of the Peace [1919]* (1971), 148-149. On whether Lenin ever uttered the phrase, see Frank Whitson Fetter, "Lenin, Keynes and Inflation," *Economica, New Series* 44, no. 173 (Feb., 1977), 77-80. Michael White and Kurt Schuler, "Who said 'Debauch the Currency': Keynes or Lenin?," 23, no. 2 (Spring 2009), 213-22.

60 Keynes, "Social Consequences of Changes in the Value of Money (1923)," 103. As Keynes noted in a Treasury memo from February 1920, inflationism "will strike at the whole basis of contract, of security, and of the capitalist system generally." As cited in Tooze, *The Deluge*, 356 and Allan H. Meltzer, *Keynes's Monetary Theory. A Different Interpretation* (Cambridge: Cambridge University Press, 1989), 46.

61 Keynes, *A Tract on Monetary Reform*, 67-68. This preference for inflation over deflation aligned with Keynes's call for "the euthanasia of the rentier class." See also his 1922 lecture, John Maynard Keynes, "Lecture to the Institute of Bankers (5 December, 1922)," in *The Collected Works of John Maynard Keynes* (Cambridge: Cambridge University Press, 1981), 47.

In 1919, this awareness of the political ramifications of radical changes in the price level still let Keynes side with conventional wisdom in defense of the gold standard. By 1923, as war-time inflation had given way to deflation in some cases and hyperinflation in other cases he had changed his mind and now embraced a flexible monetary policy not as the destruction of the capitalist system but as its salvation.[62] Given the changes in the global distribution of gold, any return to a gold standard risked becoming a deflationary drag, Keynes argued. A flexible monetary policy was paradoxically the only guarantee for price stability. This required a holistic rethinking of the nature of money and the way it related to the political system.

Referring also to his own earlier belief in the sanctity of gold, Keynes pointed out that in the course of the nineteenth century the gold standard had become an almost theological faith; a faith – Keynes quipped in the *General Theory* – that had conquered England "as completely as the Holy Inquisition conquered Spain."[63] What was required now was to submit money to a process of secularization, to bring gold from the heaven down to earth.

> Thus gold, originally stationed in heaven with his consort silver, as Sun and Moon, having first doffed his sacred attributes and come to earth as an autocrat, may next descend to the sober status of a constitutional king with a cabinet of Banks; and it may never be necessary to proclaim a Republic. But this is not yet – the evolution may be quite otherwise. The friends of gold will have to be extremely wise and moderate if they are to avoid a Revolution.[64]

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62 For "the great deflation" of 1920 that followed the war-time inflation, see Tooze, *The Deluge*, 353-373.

63 John Maynard Keynes, *The General Theory of Employment, Interest and Money* [1936], The Collected Writings of John Maynard Keynes, Vol. 7 (Cambridge: Cambridge University Press, 2013), 32.

64 Keynes, "Auri Sacra Fames (Sept. 1930)," 185.

This was a supremely Burkean way of stating the problem. In political terms, it meant that the autocrat gold would have to be turned into a constitutional monarch, subjected to Parliament and "shorn of his ancient despotic powers."[65] Throughout the 1920s Keynes's *Tract on Monetary Reform* (1923) had been the mouthpiece of this vision and the first elaborate assertion of the doctrine of constitutionalizing money, arguing against the consensus view of the time that advocated for a return to the gold standard as quickly as possible.[66] The gold standard may have been the anchor of financial trust before the war, but its remnants had now themselves become a source of monetary instability, dragging countries into dangerous deflation, in particular when they aspired to return to gold at the old rate. As Keynes pointed out, the value of gold was not simply given by nature but itself reflected international politics.[67]

In his prewar writings and in his two stints in the India Office before and during the war (from 1906 till 1908, and 1913 till 1915), Keynes had both ignored and downplayed the imperial political dimension of the gold standard and Britain's colonial

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65 Keynes, "Alternative Aims in Monetary Policy (1923)," 209.

66 Robert Skidelsky, "Keynes's Road to Bretton Woods," in *International Financial History in the Twentieth Century. System and Anarchy*, ed. Marc Flandreau, Carl-Ludwig Holtfrerich, and Harold James (Cambridge: Cambridge University Press, 2003), 135.

67 As recent scholarship has emphasized, even the nineteenth-century gold standard was not even nearly as "natural" and "automatic" as often made out to be by its operators. The naturalization of monetary politics is from this perspective itself a kind of politics. In the nineteenth century this could mean that for many governments the gold standard was not so much obstacle but vehicle of national economic development. See Marc Flandreau and Barry Eichengreen, *The Gold Standard in Theory and History* (London and New York: Routledge, 1997); Eric Helleiner, "Denationalizing Money?," in *International Financial History in the Twentieth Century. System and Anarchy*, ed. Marc Flandreau, Carl-Ludwig Holtfrerich, and Harold James (Cambridge: Cambridge University Press, 2003); Eric Helleiner, "Economic Nationalism as a Challenge to Economic Liberalism? Lessons from the 19th Century," *International Studies Quarterly* 46 (2002), 307-29.

currency system.[68] During his undergraduate days, Keynes was not merely the "unworldly" Moorean Apostle so familiar to us from his biographers but also a strident liberal imperialist.[69] In an early speech in the Cambridge Union, at age nineteen and thus before his election to the Apostles or his contact with Moore, Keynes shared in the liberal imperialism with which he had grown up. "We, who are imperialists, believe on the whole, in the beneficence of these ambitions; we think that British rule brings with it an increase in justice, liberty, and prosperity."[70] While it was tempting to take the gold standard at its neutral face value, Keynes knew all too well that London's preeminent role as the center of the international monetary system owed more to the colonial politics of money than met the eye at first glance. For example, while Britain supported the gold standard elsewhere it had developed a sterling exchange standard for India. The system, which consisted of a rupee paper currency that was maintained at par with the gold standard through sterling reserves kept in London, not only prevented bullion from moving into India but provided London with large balance of payments surpluses and additional reserves.[71] In his first book on Indian currency from 1913 Keynes defended the

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68 On this important critical point, see Manu Goswami, *Producing India: From Colonial Economy to National Space* (Chicago: The University of Chicago Press, 2004), 99-101, as well as Mark Metzler, *Lever of Empire: The International Gold Standard and the Crisis of Liberalism in Prewar Japan* (Berkeley, Los Angeles, London: University of California Press, 2006), 38.

69 Cristiano, *Political and Economic Thought of the Young Keynes*, 44-47.

70 JMK papers, speech at the Cambridge Union, January 20, 1903. Reproduced in Cristiano, *Political and Economic Thought of the Young Keynes*, 47.

71 Goswami, *Producing India*, 69. See also Marcello De Cecco, *Money and Empire* (Totowa NJ: Rowman and Littlefield, 1975).

sterling exchange standard that Britain had forced upon India.[72] The book immediately earned Keynes a seat on a Royal Commission set up to enquire into Indian Finance and Currency.

Only in the early 1920s, as the center of financial gravity shifted from London to Washington, did Keynes suddenly become attentive to the politics of gold flows and the international hierarchy they reflected. The crucial context of Keynes's changed position, as Skidelsky has shown, was thus the new dominance of the United States.[73] Now the politics of international debt had turned decisively against Britain. With London burdened by enormous war-time debt to the US, gold now flowed west across the Atlantic. To speak of a return to gold, Keynes explained, was in this context a confused misnomer. The restored gold standard would fundamentally differ from the old one.

> [T]he war has effected a great change. Gold itself has become a 'managed' currency. The West, as well as the East, has learnt to hoard gold; but the motives of the United States are not those of India. Now that most countries have abandoned the gold standard, the supply of the metal would, if the chief user of it restricted its holdings to its real needs, prove largely redundant.[74]

With its politics revealed, it was clear that even gold was a "managed" standard. And it would not be London but Washington that would manage it.

> I see grave objections to reinstating gold in the pious hope that international co-operation will keep it in order. With the existing distribution of the world's gold, the reinstatement of the gold standard means, inevitably, that we surrender the regulation of our price level and the handling of the credit cycle to the Federal Reserve Board of the United States. … It would be rash in the present

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72 John Maynard Keynes, *Indian Currency and Finance*, ed. Donald Moggridge, The Collected Writings of John Maynard Keynes, Vol. 1 (Cambridge: Cambridge University Press, 2013) [CW 1].

73 Robert Skidelsky, *Keynes. A Very Short Introduction* (Oxford: Oxford University Press, 2010), 62.

74 Keynes, "Alternative Aims in Monetary Policy (1923)," 202-203.

> circumstances to surrender our freedom of action to the Federal Reserve Board of the United States.[75]

To tie oneself to gold meant to surrender economic government to the Federal Reserve. Instead, Keynes began a sustained intellectual and political campaign calling for political control over the currency.

It was necessary to abandon the naturalized fetishization of gold and instead root trust in the political system itself. "We must free ourselves," Keynes argued in the *Tract of Monetary Reform*, "from the deep distrust which exists against allowing the regulation of the standard of value to be the subject of deliberate decision."[76] The Lockean defenders of gold opposed devaluations and a managed currency by insisting on the inviolability of the monetary contract, both concerning the value of debts contracted between private individuals but even more profoundly concerning the monetary contract between citizens and the state. Keynes responded that these critics overlooked the crucial distinction between private contracts among individuals and the state's role in guaranteeing these contracts. Not only did the state have every *right* to break contracts that ran counter to the higher social purpose of justice (since this was the purpose for which contracts existed in the first place) but, ironically, nothing could better preserve the integrity of contract between individuals than the state's discretionary authority "to revise

75 Keynes, "Alternative Aims in Monetary Policy (1923)," 210-211. See also Keynes, *A Tract on Monetary Reform*, 174-175. As Skidelsky adds, "In the short run, the Federal Reserve Board's policy of sterilizing gold gains to prevent inflation would impose deflation on the rest of the world if it returned to the gold standard. In the longer run, Keynes feared that the eventual dishoarding of America's gold stock would lead to worldwide inflation – as it did, but not till the 1960s!" Skidelsky, "Keynes's Road to Bretton Woods," 136.

76 Keynes, *A Tract on Monetary Reform*, 40. Keynes's emphasis.

what had become intolerable."[77] As a result, it was precisely those who opposed the deliberate management of the currency by citing the liberal inviolability of the monetary contract who gravely misunderstood the political foundations of liberalism. "Those who insist that in these matters the State is in exactly the same position as the individual, will, if they have their way, render impossible the continuance of an individualist society, which depends for its existence on moderation. The absolutists of contract … are the real parents of Revolution."[78] The self-declared defenders of individual liberty and contract, Keynes maintained, were precisely the ones who posed the greatest threat to the continuance of a liberal capitalist society.

Keynes failed to persuade his contemporaries, at least during the 1920s. Britain threw itself at America's feet in 1925, Belgium and France followed in 1926, Italy in 1927, Japan in 1930.[79] In Britain in particular the return to a new American-led gold exchange standard at the old rate entailed enormous hardship. This policy of "deliberately intensifying unemployment," Keynes explained, was "a hateful and disastrous way"

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77 Keynes, *A Tract on Monetary Reform*, 67-68. "There is a respectable and influential body of opinion which … fulminates alike against Devaluations and Levies, on the ground that they infringe the untouchable sacredness of contract; or rather of vested interest, for an alteration of the legal tender and the imposition of a tax on property are neither of them in the least illegal or even contrary to precedent. Yet such persons, by overlooking one of the greatest of all social principles, namely the fundamental distinction between the right of the individual to repudiate contract and the right of the State to control vested interest, are the worst enemies of what they seek to preserve. For nothing can preserve the integrity of contract between individuals, except a discretionary authority in the State to revise what has become intolerable."

78 Keynes, *A Tract on Monetary Reform*, 67-68.

79 Eichengreen, *Golden Fetters*, 153-221.

"from which any humane or judicious person must shrink."[80] "In order to do justice to a minority of creditors, a great injustice would be done to a great majority of debtors."[81]

There were two primary political reasons why Keynes preferred a flexible monetary policy over a flexible wage policy. One rested on justice and the fair sharing of burdens, the other on the foundation of the liberal order. Concerning the former, he explained that a reduction in real wages would necessarily occur in a haphazard and irregular way, "justifiable on no criterion of social justice, ... where those in the weakest bargaining position will suffer relatively to the rest."[82] Concerning the latter, he noted that "except in a socialised community where wage-policy is settled by decree," liberal economies were based on freedom of occupational choice and variation in wages. To set wages centrally amounted in effect to planning. Monetary policy thus offered the prospect of avoiding the injustice of irregular wage reductions without abolishing liberal wage contracting. Instead, the ability to change the quantity of money was already within

80 Keynes, "The Economic Consequences of Mr. Churchill," 257.

81 Keynes, *A Tract on Monetary Reform*, 148. What Keynes's argument based on economic reason and political theory failed to acknowledge, however, were the hierarchical politics of international debt in which Britain now found itself entangled. As Adam Tooze has shown, just as Keynes had shown little patience for how politically charged questions of inter-governmental debt had become, especially in particular in the US, he showed little interest in the politics of international debt in the context of struggles over international hierarchy and disarmament. See Tooze, *The Deluge*, 295-304, on debt-forgiveness see 349 and 365-7, on Keynes's hope to avoid international entanglement 455. Concerning the implications of this argument for the historiography inspired by Eichengreen's *Golden Fetters*, see Adam Tooze, "Bringing Hegemony Back In: The interwar crisis and the question of American power," (2013), working paper on file with the author.

82 Keynes, *The General Theory* [CW 7], 267.

the power of most governments. If the liberal state was to learn how to govern, it would have to do so indirectly.[83]

In the context of the interwar struggle against austerity and painfully uneven real wage adjustments, the ancient Athenian recognition of the politics of money, with which I opened the first chapter, resonated deeply with Keynes's own efforts to remind his contemporaries of the need to consciously control money. Keynes's celebration of Solon's monetary reform and the way in which the Athenians had linked money to justice provided a welcome pedigree. As Keynes knew, and as his vast rare book collection of the history of philosophy and political thought testified, the Athenian appreciation of the politics of money inaugurated a long tradition of political thinking about currency.[84] Throughout the history of political thought, coinage was considered a constitutive political institution – "of the same nature as law," as Jean Bodin put it in his *Six Books of the Commonwealth* (of which Keynes owned no fewer than three sixteenth-century French editions).[85] Ever since the introduction of coinage into the Greek world not long

83 In the *General Theory*, Keynes added to active monetary policy that steered through the interest rate the need to govern more directly by organizing investment. As he explained, "Fluctuations in the market estimation of the marginal efficiency of different types of capital, ... will be too great to be offset by any predicable changes in the rate of interest." Keynes, *The General Theory* [CW 7], 164.

84 For an overview of Keynes's books collection, see A.N.L. Munby, "The Book Collector," in *Essays on John Maynard Keynes*, ed. Milo Keynes (Cambridge: Cambridge University Press, 1975). Of the more than 6,000 books, now kept at King's College, Cambridge, only about 4,000 have so far been catalogued.

85 John Maynard Keynes Collection, King's College Library, Cambridge. Keynes.B.15.09; Keynes.B.09.01; Keynes collection. No. 2128. Jean Bodin, *On Sovereignty* [1576] (Cambridge: Cambridge University Press, 1992). The modern state, so Max Weber, claimed not only a monopoly on the legitimate use of violence but also a universal monopoly on the monetary order (*Geldordnung*). Max Weber, *The Theory of Social and Economic Organization*, trans. A. M. Henderson and Talcott Parsons (New York: The Free Press, 1947), 307-309.

before Solon, money was treated not just as a fraught vehicle of economic abstraction but also as an institution of societal value and a tool of government. But if the politics of money was once well known, how could it become largely invisible since? As I argued in the second chapter, we can trace one strand of this liberal politics of naturalized money that disguises its own political character – and that Keynes detected in the gold standard – back to John Locke and his influential advice during the Coinage Crisis of 1695-1696.[86]

4.4 The Politics of Depoliticization

Although Keynes sought to recover the political dimension of money, he was also indebted to a Lockean liberalism that shielded money from political pressures. Keynes was keenly aware of both sides of this argument: visions of currency as a political institution whose naturalistic pretentions had to be stripped away in the search for political justification, on the one hand, and Lockean arguments insisting on the need to remove money from direct political interference, on the other. In order to reconcile the insights of these seemingly incompatible positions, Keynes proposed a constitutionalization of money. It is this attention to the interplay between politics and economics that characterizes Keynes's political thought. Tellingly, the best-selling book that earned him instant global fame in 1919 was an eloquent *political* condemnation of

[86] As I explain in detail in chapter 2, the key text here is John Locke, *Further Considerations Concerning Raising the Value of Money. Wherein Mr. Lowndes's Argument for it in his late Report concerning An Essay for the Amendment of the Silver Coins, are particularly Examined* (London: For A. and J. Churchil, 1695).

the *economic* consequences of the Versailles Peace.[87] In order to avoid ruinous French and British demands for German reparations, Keynes argued, a decisive stroke of politics in the form of intergovernmental debt forgiveness would be required. Indeed, such an intervention would ideally come to serve as the foundation stone for new institutions of international economic governance through which the politics of the world economy could be managed. In other words, *political* imagination and *political* action were necessary to avoid *economic* disaster that would itself before long reverberate back into politics.

Here we encounter the core of Keynes's position and the irony it entails. As Keynes argued, any simplistic insistence on the primacy of the *economic* would have disastrous *political* consequences. But at the same time, any simplistic insistence on the primacy of the *political* would have disastrous *economic* consequences with unpredictable *political* repercussions. The fascinating aspect of Keynes's position and the one that should interest political theorists is his attempt to think through these dilemmas of mutual dependency in the form of a political theory of economic politicization and depoliticization. While Keynes must be seen as the most prescient voice for recognizing the politics of money and the need to bring currencies under deliberate control, his position reflects also an engagement with the simultaneous political need for depoliticization.

Accounts of the interwar years have often stressed either the fateful entanglement between economics and politics or, inversely, the way in which they were seen as

87 John Maynard Keynes, *The Economic Consequences of the Peace* (London: Macmillan, 1919). See also John Maynard Keynes, *A Revision of the Treaty, Being a Sequel to The Economic Consequences of the Peace* (London: Macmillan, 1922).

opposed to one another. In 1932, Polanyi captured both aspects of this assessment when describing how politics and economics had drifted apart only to collide all the more dramatically. "A gaping chasm has opened between economics and politics," Polanyi explained, then still writing as a financial journalist in Vienna. "This briefly, is the diagnosis of the times. Economics and politics, two expressions of society, have each become autonomous, unceasingly at war with each other."[88] Some contemporary observers, such as Carl Schmitt (who in 1931 lost money in the collapse of the Danatbank[89]), concluded from this ceaseless war the need to pit economics and politics against one another all the more resolutely in the hope of forcing a victory of one or the other.[90] Keynes, by contrast, refused the opposition between the two and instead, somewhat paradoxically, attempted to disentangle politics and economics precisely by thinking them together in a non-reductive way. As Keynes recognized, any attempt of straightforwardly resorting to the primacy of politics risked undermining itself as long as it was framed in opposition to economics. Instead, what was required was an appropriate language that could reconcile politics with economics by disentangling them.

To make money subject to deliberate political control meant for Keynes then not simply to hand it over to the political process but to develop a kind of contained politics adequate for it.

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88 Karl Polanyi, "Wirtschaft und Demokratie," *Der Österreichische Volkwirt* (24 December 1932), 301. Republished in Karl Polanyi, *Chronik der großen Transformation: Artikel und Aufsätze (1920-1945), Band 1*, ed. Michele Cangiani and Claus Thomasberger (Marburg: Metropolis-Verlag, 2002), 149-154.

89 Mehring, *Carl Schmitt: A Biography*, 230.

90 Carl Schmitt, *The Concept of the Political*, ed. George Schwab (University of Chicago Press, 1996); Carl Schmitt, *The Crisis of Parliamentary Democracy* (Cambridge MA: MIT Press, 1988).

> We can no longer afford to leave [money] in the category of which the distinguishing characteristics are possessed in different degrees by the weather, the birth-rate, and the Constitution, – matters which are settled by natural causes, or are the resultant of the separate action of many individuals acting independently, or require a Revolution to change them.[91]

If Keynes reminded his contemporaries that money, unlike the weather and the birth rate, could be controlled politically, he at the same time sought to block it off from revolutionary or populist politics that would imply its full politicization. Instead, Keynes insisted, money would have to be politically "managed."[92] If currency was, as Bodin had put it, a political institution analogous to law, Keynes refined the analogy by pointing out that it extended more appropriately to *constitutional* law rather than law as such. This was the logic behind his call for monetary reform. As a political institution, currency, like constitutional law, is committed to the public good and derives its legitimacy from the political covenant that also grounds the state. But it is nonetheless removed by at least one degree from popular politics since it relies on the interpretation and management by a group of experts who have to carefully navigate between democratic legitimacy and the political use of their expertise.

As the analogy between constitutional law and the politics of money may already indicate, to rethink money as a constitutional project itself required a healthy dose of

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91 Keynes, *A Tract on Monetary Reform*, 40.

92 This stance, to be sure, reflected Keynes's faith in high technocracy. But what might appear to be a return to his Treasury habitus in fact earned him the disregard of Treasury staff whose ardent goal was after all to return to gold. This was the conventional conservative opinion that still dominated the corridors of power and that Keynes sought both to sway and to attack in his *Tract on Monetary Reform*, dedicated "humbly and without permission" to the Governors and Court of the Bank of England, "who now and for the future have a much more difficult and anxious task entrusted to them than in former days." "Nowhere do conservative notions consider themselves more in place than in currency; yet nowhere is the need of innovation more urgent," he added in the preface. Keynes, *A Tract on Monetary Reform*, vi.

political imagination. Keynes's response was one of radical experimentalism. If he took from Burke an insistence on political expediency, he substituted an embrace of experimentalism for Burke's insistence on tradition. Keynes, the admirer of Burke, was the same person who in March 1917 excitedly cheered on the first phase of the Russian revolution as "the sole result of the war so far worth having."[93] Realizing that the war was bringing to an end the era of Victorian liberalism from which he himself had sprung, Keynes was hardly remorseful. The order of the nineteenth century, he explained in *The Economic Consequences of the Peace*, had depended on a bluff whereby the laboring classes accepted, or, more aptly, "were compelled, persuaded, or cajoled by custom, convention, authority, and the well-established order of society into accepting a situation in which they could call their own very little of the cake that they and nature and the capitalists were co-operating to produce."[94] Instead of indulging in nostalgia, Keynes shed his hesitations and largely embraced the changes under way.

> [A] further prolongation of the war, with the turn things have now taken, probably means the disappearance of the social order we have known hitherto. With some regrets I think I am on the whole not sorry. The abolition of the rich will be rather a comfort and serve them right anyhow. What frightens me more is the prospect of *general* impoverishment. In another year's time we shall have forfeited the claim we had staked out in the New World and in exchange this country will be mortgaged to America.[95]

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93 Keynes writing to his mother on March 30, 1917: "I was immensely cheered up and excited by the Russian news." See also Gilles Dostaler, "The General Theory, Marx, Marxism and the Soviet Union," in *Keynes' General Theory: Seventy-Five Years Later*, ed. Thomas Cate (Cheltenham: Edward Elgar, 2012), 238-266.

94 Keynes, *The Economic Consequences of the Peace*, 29.

95 John Maynard Keynes, *Activities 1914-1919: The Treasury and Versailles*, ed. Donald Moggridge, The Collected Writings of John Maynard Keynes, Vol. 16 (Cambridge: Cambridge University Press, 2013), 265-266. As quoted in Dostaler, *Keynes and His Battles*, 94.

The only course open now was to be "buoyantly Bolshevik."[96] Though when the Soviet government offered him an honorary decoration in February 1919, he characteristically declined, explaining that "being a Bolshevik, … I thought it more proper to refuse."[97]

Keynes's radical openness toward new and untested ideas derived from a conviction that the principles of nineteenth-century classical liberalism could no longer serve as, what he later dubbed, an adequate "working political theory."[98] Escaping the resulting impasse demanded an embrace of experimentation. It was interestingly this very same insistence on contrarianism and critique that came with experimentation that immunized Keynes against hanging on to the Soviet project for too long. Already by 1921, Keynes proclaimed its failure. Instead, he now intensified the search for what it might mean to renew liberalism radically in the hope of forestalling both revolution and restoration. If he had once looked to Moscow for new ideas, with the election of FDR Keynes would set his eyes on Washington as the economic and political laboratory of the world.[99] In the interim, however, he placed his hopes in extending what had been the turn of the century New Liberalism of Hobhouse, Hobson, and T.H. Green.[100] As Keynes

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96 John Maynard Keynes, *Collected Writings*, vol. 16, 266. As quoted in Dostaler, *Keynes and His Battles*, 94.

97 Keynes writing to his mother, dated February 23, 1919. John Maynard Keynes, *Collected Writings*, vol. 16, 267. This did not mean that Keynes aligned himself in any sense with the working class. As he famously quipped in the mid 1920s, "the class war will find me on the side of the educated bourgeoisie." Keynes, "Am I a Liberal? (1925)," 324.

98 John Maynard Keynes, "National Self-Sufficiency," *Studies: An Irish Quarterly Review* 22, no. 1 (June 1933), 177-93, here: 179.

99 As Keynes remarked during his visit to D.C. in 1934, "Here, not in Moscow, is the economic laboratory of the world." Skidelsky, *Keynes: The Economist as Savior*, 506.

100 Cristiano similarly highlights the indirect influence of the English New Liberalism. Cristiano, *Political and Economic Thought of the Young Keynes*, xix, 19-20,

explained, "The republic of my imagination lies on the extreme left of celestial space. Yet – all the same – I feel that my true home, so long as they offer me a roof and a floor, is still with the Liberals."[101]

It had once more become necessary, Keynes argued, to forge a new liberalism that could adequately respond to the questions of the day. Keynes formed in this sense part of what Skidelsky has called "the second liberal revival."[102] He spelled out the key principles of his new liberalism as follows: first came the striving for peace, declared Keynes who had been a conscientious objector during World War I. Second came governmental decentralization and a call for cooperatives and "semi-autonomous bodies" that could enrich social life, raise the sight of citizens beyond their economic narrow self-interest, and allow them to participate in governing on a local level.[103] Third in his list New Liberal principles Keynes placed what he called "sex questions." Birth control, marriage laws, the treatment of sexual offences and so-called abnormalities, the economic position of women and of the family – all these matters were "of the utmost social importance" but existing law and orthodoxy could only be described as

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40-43, 159. This constitutes an important corrective to Robert Skidelsky, *John Maynard Keynes: Hopes Betrayed, 1883-1920* (London: Macmillan, 1983) and Maurice Cranston, "Keynes: His Political Ideas and their Influence," in *Keynes and Laissez-Faire*, ed. A.P. Thirlwall (London: Macmillan, 1978) who had both downplayed – not entirely without reason – the influence of pre-war liberalism. On the New Liberalism more generally, the standard reference works are still Michael Freeden, *The New Liberalism: An Ideology of Social Reform* (Oxford: Oxford University Press, 1978) and P.F. Clarke, *Liberals and Social Democrats* (Cambridge: Cambridge University Press, 1978).

101 Keynes, "Liberalism and Labour," *Collected Writings*, vol. IX, 309.

102 Skidelsky, "Keynes's Political Legacy," 15.

103 Keynes, "Am I a Liberal? (1925)," 331. See also Keynes, "The End of Laissez-Faire (1926)," 313, as well as Keynes, *The General Theory* [CW 7], ch. 24. On Keynes's conception of semi-autonomous bodies, see also Atsushi Komine, *Keynes and His Contemporaries: Tradition and Enterprise in the Cambridge School of Economics* (Abingdon and New York: Routledge, 2014), 115-127.

"medieval."[104] Fourth, Keynes listed the liberalization of recreational drugs. "How far is bored and suffering humanity to be allowed, from time to time, an escape, an excitement, a stimulus, a possibility of change? That is the important problem."[105]

But finally, Keynes explained, a new liberalism would have to address itself to the economic question. This meant nothing less than effecting a transition from "economic anarchy" to a regime that would deliberately direct economic forces "in the interests of social justice and social stability."[106] There was no denying that the functions and purposes of the State had to be enlarged. What the state was to take in its hand based on public interest and what to leave to decentralized individual decisions based on self-interest was not a foregone conclusion but, as Keynes put it in quoting Burke, "one of the finest problems in legislation"[107] But what is important to note here is that Keynes envisaged deliberate control not in terms of planning but through what we would call macroeconomic policy, that is fiscal and monetary policy. The New Liberal State aimed for economic justice through indirect steering. The solution to an appropriately governed economic space lay first and foremost in "the deliberate control of the currency and of credit by a central institution." Furthermore, this involved a call to gather and disseminate statistical data on economic developments. "These measures," Keynes explained, "would involve society in exercising directive intelligence through some appropriate organ of

104 Keynes, "Am I a Liberal? (1925)," 332.

105 Keynes, "Am I a Liberal? (1925)," 333.

106 Keynes, "Am I a Liberal? (1925)," 335. As he explained in a speech at Columbia University during his 1934 visit to the US, if the economic problem was not solved, "the existing order of society will become so discredited they wild and foolish and destructive changes will become inevitable." As quoted in Skidelsky, *Keynes: The Economist as Savior*, 507.

107 Keynes, "The End of Laissez-Faire (1926)," 312.

action over many of the inner intricacies of private business."[108] This was not planning. But the line was a fine one.

Steering and the conscious exercise of "directive intelligence" required, however, technical expertise that easily ran counter to the demands for experimentation and open critique. The rule of experts all too easily implied insulation against challenges from outside the policy machine.[109] Keynes never quite reconciled these two aspects of his argument: the call for contrarian critique and the anti-democratic bent of his insistence on technocratic governance. The need for expertise – in the best tradition of what Bernard Williams once dubbed "Government House utilitarianism" – clearly created tensions with democratic legitimacy that meant that Keynes could easily come across as someone "ill at ease with democracy" as some critics have charged.[110] In the course of the 1920s Keynes gradually became aware of just how central and yet politically problematic this technocratic bias could be. In response to William Beveridge's proposal to set up a technically trained Economic General Staff, Keynes wrote supportively that "we shall never enjoy prosperity again if we continue indefinitely without some deliberate machinery for mitigating the consequences of selecting our governors on account of their

108 Keynes, "The End of Laissez-Faire (1926)," 317-318. Behind the collection and publication of data, loomed Keynes's conviction that "many of the greatest economic evils of our time are the fruits of risk, uncertainty, and ignorance."

109 On the technocratic politics of expertise see also K. Sabeel Rahman, "Conceptualizing the Economic Role of the State: Laissez-Faire, Technocracy, and the Democratic Alternative," *Polity* 43, no. 2 (April 2011) as well as Timothy Mitchell, *Rule of Experts: Egypt, Techno-Politics, Modernity* (Berkeley and Los Angeles: University of California Press, 2002).

110 Wayne Parsons, "Politics and markets: Keynes and his critics," in *The Cambridge History of Twentieth-Century Political Thought*, ed. Terence Ball and Richard Bellamy (Cambridge: Cambridge University Press, 2003), 50. On "Government House utilitarianism," see Bernard Williams, *Ethics and the Limits of Philosophy* (London and New York: Routledge, 2006), 108.

gifts of oratory and their power of detecting in good time which way the mind of uninstructed opinion is blowing."[111] The previous summer of 1925 Keynes also gave a speech at a Liberal summer school that later formed the basis for his essay "Am I a Liberal?." In the speech, Keynes elaborated on this sentiment of tension between the currents of democratic politics based the whims of opinion and the epistemic demands of economic knowledge.

> I believe that in the future, more than ever, questions about the economic framework of society will be far and away the most important of political issues. I believe that the right solution will involve intellectual and scientific elements which must be above the heads of the vast majority of more or less illiterate voters. Now, in a democracy, every party alike has to depend on this mass of ill-understanding voters, and no party will attain power unless it can win the confidence of those by persuading them in a general way that it intends to promote their interests or that it intends to gratify their passions.[112]

According to Keynes, the increasing importance of economic questions in politics rendered even otherwise well-educated citizens practically illiterate, leaving them and the polity they shared vulnerable to manipulation and demagoguery. Tellingly, however, in the version of his speech reprinted in the 1931 *Essays on Persuasion*, Keynes chose to excise these words – leaving it unclear whether this reflected a change of mind or an awareness of the destructive public potential of the words themselves (or indeed both).[113]

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111 Keynes, Letter to the *Westminster Gazette* (July 17, 1926), in John Maynard Keynes, *Activities 1922-1929: The Return to Gold and Industrial Policy, Part 1*, ed. Donald Moggridge, The Collected Writings of John Maynard Keynes, Vol. 19 (Cambridge: Cambridge University Press, 1982) [CW 19], 567-568. As quoted in Skidelsky, "Keynes's Political Legacy," 19.

112 "Am I a Liberal?" was first given as an address to the Liberal Summer School which met at Cambridge in August 1925. It was then published as two articles in the *Nation* and *Athenaeum*, 8 and 15 August 1925.

113 Keynes, "Am I a Liberal? (1925)," 295-296.

His unease concerning the influence of democratic opinion in economic questions already reflected an earlier development of his vitriolic condemnation of the Versailles Peace. Where he had in 1919 simply ridiculed Lloyd George's demands for reparations, by 1922 Keynes conceded that perhaps Lloyd George had correctly read the popular sentiment that constituted a genuine constraint on a democratic polity despite it being in contradiction to what economic reason might desire.[114] Keynes now admitted that "perhaps the Peace of Versailles was the best momentary settlement which the demands of the mob and the characters of the chief actors conjoined to permit."[115] To bow to "the demands of the mob" was, to be sure, more a concession to political realities than a celebration of democratic opinion formation but Keynes nonetheless concluded – contrary to his earlier sentiment – that "public passions and public ignorance play a part in the world of which he who aspires to lead a democracy must take account."[116]

But besides illuminating the democratic politics of economic expertise consideration of Keynes's New Liberal politics of economic governance also helps us to appreciate his critique of the gold standard in a different light.[117] Keynes's critique was not born from a hostility toward depoliticization as such or merely the hurt discomfort and anxiety of having to live in the shadow of American hegemony. Instead, it derived

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114 Tooze, *The Deluge*, 295.

115 Keynes, *A Revision of the Treaty*, 2. As quoted in Tooze, *The Deluge*, 295.

116 Keynes, *A Revision of the Treaty*, 2. As he explained further in developing an account of the co-existence and interplay between democratic and technocratic opinion: "For there are, in the present times, two opinions; not, as in former ages, the true and the false, but the outside and the inside; the opinion of the public voiced by the politicians and the newspapers, and the opinion of the politicians, the journalists and the civil servants, upstairs and backstairs and behind-stairs, expressed in limited circles." Keynes, *A Revision of the Treaty*, 4.

117 Again, I owe much of what follows to conversations with Adam Tooze.

from a critique of the gold standard as a false and unfair attempt at neutralization that, as Keynes pointed out, imposed economic costs in a systematically skewed way. Similar to the enshrining of certain framing principles in constitutional law, depoliticization meant from this perspective the freezing of certain foundational political compromises. If the principles thus frozen were just, the subsequent depoliticization would occur in a way that reflected the reciprocally shared burden of the founding compromise. If unjust, depoliticization would amount to a gradual piling up of extractive injustices deriving from an initial imbalance.[118] Nor was the gold standard able to live up to its internationalist promises. Far from serving international cooperation and peace, the gold standard, Keynes explained, had set countries inescapably against each other. "Never in history was there a method devised of such efficacy for setting each country's advantage at variance with its neighbours' as the international gold (or, formerly, silver) standard."[119]

When Britain went off gold in September 1931, Keynes had thus for years been one of the most prominent and persistent voices calling for Britain to leave the interwar gold exchange standard. Having fiercely opposed Churchill's return to gold in 1925, the

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118 According to Keynes, the old gold standard threatened in this sense to become a pernicious anti-politics machine that fueled either a delusionary escape from the political reality or a cynical attempt at obscuring it. "If, indeed, a providence watched over gold, or if Nature had provided us with a stable standard ready-made, I would not, in an attempt after some slight improvement, hand over the management to the possible weakness or ignorance of Boards and Governments. But this is not the situation. We have no ready-made standard. Experience has shown that in emergencies Ministers of Finance cannot be strapped down. And – most important of all – in the modern world of paper currency and bank credit there is no escape from a 'managed' currency, whether we wish it or not;-convertibility into gold will not alter the fact that the value of gold itself depends on the policy of the Central Banks." Keynes, "Alternative Aims in Monetary Policy (1923)," 206.

119 Keynes, *The General Theory* [CW 7], 349.

devastation of the Great Depression only strengthened Keynes's resolve.[120] Though he largely failed to find a receptive audience at either the Bank of England or the Treasury during the 1920s, Keynes inevitably features prominently in all historical narratives of Britain's painful six years on the interwar gold exchange standard and its ultimate decision to abandon gold.

Mere days after Britain went off gold in September, Keynes decided to collect a selection of his writings from the previous twelve years. The timing of the publication of what would come to be known as his *Essays on Persuasion* in November 1931 thus directly reflected the fact that Britain had stepped into the brave new world of life beyond the gold standard. Before the British exit from gold Keynes had been standing at the margins, little more than an eccentric maverick whose ideas were out of step with the needs of the time. The collapse of gold immediately changed this. Soon almost every single one of Keynes's positions in his lost battles of the 1920s seemed to have been vindicated.[121] Keynes saw his chance in this crucial historical juncture. "I have thought it convenient," he explained in the preface,

> to choose this date of publication, because we are standing at a point of transition. It is called a National Crisis. But that is not correct – for Great Britain the main crisis is over. There is a lull in our affairs. We are, in the autumn of 1931, resting ourselves in a quiet pool between two waterfalls. The main point is that we have regained our freedom of choice. … But most of us have, as yet, only a vague idea of what we are going to do next, of how we are going to use our regained freedom of choice. So I should like to clinch the past, as it were, by reminding the reader of what we have been through, and how it appeared at the time, and the nature of the mistakes we made.[122]

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120 John Maynard Keynes, *The Economic Consequences of Mr. Churchill* (London: L. and V. Woolf, 1925).

121 Ahamed, *Lords of Finance*, 489.

122 Keynes, "Preface," ix.

To entitle the collection *Essays in Persuasion* was thus always also a subtle exercise in sarcasm.[123] For, as Keynes himself pointed out, his arguments had by and large failed to persuade his contemporaries. Instead, his essays "were regarded at the time, many of them, as extreme and reckless utterances." Assembled for the reader, he ironized, were "the croakings of twelve years – the croakings of a Cassandra who could never influence the course of events in time."[124] But if Keynes had to admit the ineffectiveness of his arguments of the previous decade the British abandonment of gold under the pressures of economic crisis also appeared as a promising break with the past. The opportune optimism of the preface was not accidental but a self-conscious feature of Keynes's intertwined economic and philosophical thought. It so happened, he explained, "that there is a subtle reason drawn from economic analysis why, in this case, faith may work. For if we consistently act on the optimistic hypothesis, this hypothesis will tend to be realised; whilst by acting on the pessimistic hypothesis we can keep ourselves for ever in the pit of want."[125]

4.5 National Self-Sufficiency and Internationalism

Readers of Fichte's political thought, most recently Isaac Nakhimovsky, have long suggested a line of comparison between Fichte's proposal to close the commercial

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123 In his first sketch the book was to be entitled *Essays in Prophecy*, which then turned into *Essays in Prophecy and Persuasion*, before finally being published in November as *Essays in Persuasion*. See Keynes, *Activities 1929-1931: Rethinking Employment and Unemployment Policies* [CW 20], 622.

124 Keynes, "Preface," v.

125 Keynes, "Preface," vii-viii.

state and Keynes's experimentation with economic nationalism in the early 1930s.[126] In Michael Heilperin's 1960 study of economic nationalism, Fichte and Keynes rubbed shoulders. "The views of Fichte on national self-sufficiency," Heilperin explained, "were rediscovered, or, rather, re-invented, by John Maynard Keynes in 1933."[127] As I showed in the previous chapter, Fichte's sketch emerged out of an earlier moment of monetary upheaval and experimentation around 1800 that saw the wholesale suspension of gold by Britain during the Napoleonic wars and flourishing paper money experiments across Europe. Inspired by these precedents, Fichte's proposal rested on a radical demand to replace all gold and silver money with a pure fiat currency either made from paper or, even better, an unknown but worthless material. The benefits of monetary autonomy thereby purchased would not have failed to attract Keynes.[128] But this position was only ever a partial glimpse of Keynes's larger liberal vision.

The high point of Keynes's insistence on domestic autonomy came in the wake of the liberating British escape from the gold standard in 1931 and discussions whether America should follow suit. This sentiment found its clearest expression in a lecture on "National Self-Sufficiency" given on April 19, 1933 that marks the extreme end of

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126 See in particular Isaac Nakhimovsky, *The Closed Commercial State* (Princeton: Princeton University Press, 2011), 3.

127 Michael A. Heilperin, *Studies in Economic Nationalism* (Geneva and Paris: Publications de l'Institut Universitaire Hautes Etudes Internationales, 1960), 63, 82-128.

128 Already in the second volume of the *Treatise on Money* (1930) Keynes had set out for the first time his doctrine of the need for interest rate autonomy, discussing in great detail the dilemma of international coordination arising from it. John Maynard Keynes, *A Treatise on Money: The Applied Theory of Money* [1930], The Collected Writings of John Maynard Keynes, Vol. 6 (Cambridge: Cambridge University Press, 2012), 270-303. See also Skidelsky, "Keynes's Road to Bretton Woods," 137. This way of framing the argument was in the course of the 1930s overtaken by Keynes's focus on the direct management of investment in the *General Theory*.

Keynes's skepticism about the possibility of peaceful economic internationalism and his insistence on national policy experimentation.[129] Not incidentally the lecture was given in Dublin, Ireland – then embroiled in an intense trade war with Britain.[130] "It is my central contention," Keynes exclaimed in the Dublin lecture, that

> there is no prospect for the next generation of a uniformity of economic system throughout the world, such as existed, broadly speaking, during the nineteenth century; that we all need to be as free as possible of interference from economic changes elsewhere, in order to make our own favourite experiments towards the ideal social Republic of the future; and that a deliberate movement towards greater national self-sufficiency and economic isolation will make our task easier.[131]

National self-sufficiency would free economic policy from previous international constraints and open up new possibilities of political and economic experimentation. As Keynes had argued since the early 1920s, the gold standard demanded economic sacrifices that had become so odious as to be considered indefensible in a democratic polity. Instead, countries ought to break out of the golden corset and introduce their own fiat currencies.[132] In the Dublin lecture, Keynes extended and radicalized this argument. Repudiating the association of economic internationalism with peace, Keynes suggested

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129 Keynes gave the lecture at University College, Dublin on April 19, 1933. Four versions of it were subsequently printed: the full lecture in the Irish Quarterly Review *Studies* (22, no. 1 [June 1933]) and shortened versions in the *New Statesman and Nation* (6, no. 124 [July 8 and 15, 1933], 36-37; 65-67) and the *Yale Review* (Vol. 22, no. 4 [June 1933], 755-769). The *New Statesman* version of the lecture is also reprinted in Keynes, *Activities 1931-1939: World Crises and Policies*, 233-246.

130 On the Anglo-Irish trade war, see Kevin O'Rourke, "Burn Everything British but Their Coal: The Anglo-Irish Economic War of the 1930s," *The Journal of Economic History* 51, no. 2 (Jun., 1991), 357-366.

131 Keynes, "National Self-Sufficiency," 186.

132 Far from serving international cooperation and peace, the gold standard, Keynes explained, had set countries inescapably against each other. "Never in history was there a method devised of such efficacy for setting each country's advantage at variance with its neighbours' as the international gold (or, formerly, silver) standard." Keynes, *The General Theory* [CW 7], 349.

that greater economic isolation between countries might instead serve the cause of peace better than economic internationalism had done.

But even the Dublin lecture was not simply an embrace of nationalism for its own sake but instead a call for bold national experimentation that ended on a note of almost self-subversive caution. Experimentation, Keynes explained, requires unrestricted, free, and remorseless self-criticism. Where criticism was lacking – as it was in Stalin's Soviet Union where "the bleat of propaganda bores even the birds and the beasts of the field into stupefaction" – the benefits of experimentation would rapidly evaporate.[133] Faced with the prospect of experimentation that lacked self-critique, Keynes admitted that his allegiance would revert to the old liberalism of the nineteenth century instead that had at least made possible the intellectual space for subversive thinking Keynes's generation prided itself with.

Highlighting Keynes's liberal politics of depoliticization allows us furthermore to appreciate the way in which his defense of national policy autonomy was accompanied by an embrace of international monetary integration.[134] The Holy Grail for Keynes was always a system that could somehow reconcile the domestic benefits of monetary autonomy with the international coordination achieved by fixed but adjustable exchange rates; a system that could reconcile domestic social experimentation with peace and international cooperation. As Keynes highlighted in the second volume of the *Treatise on Money*, the tension between the respective imperatives of domestic monetary autonomy

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133 Keynes, "National Self-Sufficiency," 193.

134 Keynes's alleged "shift" from economic nationalism to the internationalism of the 1940s was not so much a conversion as a continuity of the certain kind of international depoliticization and a distinctly British, perhaps even distinctly anti-American vision of capitalism's future. See Skidelsky, "Keynes's Road to Bretton Woods," 125-151.

and international economic integration were real and could easily entangle participants in a seemingly inescapable dilemma.[135] But ideally there would be some way to combine the coordinating power of fixed exchange rates with their adjustability that could allow for the policy autonomy necessary to provide monetary liquidity and avoid unemployment.[136] If Keynes's campaign against the gold standard showed him most explicitly focused on domestic policy autonomy, this seeming economic nationalism was always tempered and complicated by his liberal vision of political internationalism. Furthermore, as I will argue in the next section, we can discover a sense of what Keynes's vision of an international politics of depoliticized money would have looked like by turning to his proposal for an international clearing union during the 1940s.[137] But to appreciate the way in which the national and the international dimension of his monetary thought related to one another it is helpful to place the Dublin lecture in the larger monetary and transatlantic context of the first six months of 1933.

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135 On "Keynes's dilemma" see also Jonathan Kirshner, "Money is politics," *Review of International Political Economy* 10, no. 4 (2003), 645-60, 647-649.

136 Skidelsky summarizes the dilemma as follows: "writing in 1943, Keynes said that there were two main objections to the old gold standard. The first was that it 'does not provide the appropriate quantity of money.' The second – and more modern – complaint was that it failed to deal with the problem of differential wage movements except by 'creating unemployment'." Skidelsky, "Keynes's Road to Bretton Woods," 134.

137 John Maynard Keynes, "Proposals for an International Currency (or Clearing) Union [February 11, 1942]," in *The International Monetary Fund, 1945-1965: Twenty Years of International Monetary Cooperation*, ed. J. Keith Horsefield (Washington D.C.: 1969), 3-18. John Maynard Keynes, "Proposals for an International Clearing Union (April 1943)," in *The International Monetary Fund, 1945-1965: Twenty Years of International Monetary Cooperation*, ed. J. Keith Horsefield (Washington D.C.: 1969)19-36. See also John Maynard Keynes, *Activities 1940-1944: The Clearing Union*, ed. Donald Moggridge, The Collected Writings of John Maynard Keynes, Vol. 25 (Cambridge: Cambridge University Press, 2013).

After the devaluation of sterling in September 1933, as its exports picked up and sterling stabilized at a more sustainable and more competitive new level Britain found itself in a comparatively comfortable new position.[138] America meanwhile continued to ache under the weight of the Great Depression and its own "golden fetters."[139] If this were not enough, the American banking system suffered from additional self-inflicted deflationary austerity at the hands of the Federal Reserve.[140] Britain's exit from gold had only worsened this situation by wiping out the deposits of numerous American banks.[141] Between 1929 and 1931, 4,000 American banks closed for good. By early 1933 the number edged closer to 10,000, with more than two billion dollars in lost deposits. The specter of immanent crisis had returned. According to the most influential economic historian of the interwar years, "Never was uncertainty about the future of the international economy so pervasive as at the beginning of 1933."[142]

Franklin D. Roosevelt, who had been elected with a record 57 percent of the popular vote on November 8, 1932, was inaugurated on March 4, 1933, against the unpromising backdrop of bank runs in virtually every US state.[143] In his inaugural address, Roosevelt indicted the bankers who had brought the nation close to disaster.

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138 The pound dropped to below $4.00 and the economic situation began to stabilize. Unemployment stopped its seemingly unstoppable rise at 20% in 1933 before beginning to fall steadily to 11% in 1937. As Keynes repeatedly explained, the way Britain had managed to go off gold in 1931 had been exceedingly lucky.

139 Eichengreen, *Golden Fetters*, 287-316.

140 As seminally denounced in Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton: Princeton University Press, 1963).

141 Tooze, *The Deluge*, 504.

142 Eichengreen, *Golden Fetters*, 317.

143 Barry Eichengreen, *Globalizing Capital. A History of the International Monetary System* (Princeton: Princeton University Press, 1996), 87.

"Practices of the unscrupulous money changers stand indicted in the court of public opinion, rejected by the hearts and minds of men." "The money changers," Roosevelt rhapsodized, "have fled from their high seats in the temple of our civilization. We may now restore that temple to the ancient truths. The measure of the restoration lies in the extent to which we apply social values more noble than mere monetary profit." Almost immediately upon taking his oath, Roosevelt declared a four-day bank holiday. At his first press conference in office on March 8 Roosevelt was deliberately ambiguous concerning whether the US was still on gold or not. "As long as nobody asks me whether we are off the gold standard or gold basis, that is all right, because nobody knows what the gold basis or gold standard really is."[144] For weeks not even his own policy staff was quite certain whether the US was still on gold or not.

At the same moment, in March 1933, Keynes wrote a series of newspaper articles for *The Times*, which were almost immediately published separately as *The Means to Prosperity*.[145] In the pamphlet, Keynes assessed the current situation and looked forward to an international conference in London scheduled for June to address the problem of international currency stabilization as well as the controversial topics of reparations and inter-governmental debts. The main priority, Keynes explained, was now international reflation to stem the tide of deflation engulfing the remaining gold bloc and submerging the world economy along with it. As a means, Keynes proposed to issue international gold notes as a new international standard. An new international authority would be

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144 As cited in Ahamed, *Lords of Finance*, 461.

145 John Maynard Keynes, *The Means to Prosperity* (London: Macmillan, 1933). Reprinted in John Maynard Keynes, *Essays in Persuasion*, ed. Donald Moggridge, The Collected Writings of John Maynard Keynes, Vol. 9 (Cambridge: Cambridge University Press, 2013) [CW 9], 335-366.

established to issue additional reserves in the form of a fiduciary issue of gold certificates which member states would be able to use as international payment. This indirect return to a gold exchange standard would however have to enable member states not only to move within a rather wide band of around five percent at all times but also adjust their parities if necessary.[146]

Critics immediately sensed a reversal of Keynes's position. Did the arch critic of the interwar gold standard now favor its resurrection under new auspices? Keynes responded by insisting on continuity in his thought. All his proposals since 1923 had been in perfect agreement with each other, even if their emphasis had changed. There was neither inconsistency nor an "evolution" of his ideas, as *The Economist* had speculated. Instead, as Keynes explained,

> At all stages of the post-war developments the concrete proposals which I have brought forward from time to time have been based on the use of gold as an international standard, whilst discarding it is [sic] a rigid national standard. … You will find that this was my opinion in 1923 when I published my *Tract on Monetary Reform* (see Chapter 5) and again in 1930 when I published my *Treatise on Money* (see chapters 36 and 38); just as it is today, as set forth in my articles in *The Times* and in my pamphlet *The Means to Prosperity*.[147]

Adding a swipe against those who had accused him before of having changed his mind in other contexts, Keynes concluded: "Since there are people who deem it creditable if one does not change one's mind, I should like to get what *kudos* I can from not having done

[146] See Skidelsky, *Keynes: The Economist as Savior*, 472.

[147] Keynes, *Activities 1931-1939: World Crises and Policies* [CW 21], 185. Meltzer quotes a slightly different letter to the same effect from March 1933. "The proposal which I made ... is substantially the same as that which I published in 1923 in Chapter 5 of my *Tract on Monetary Reform* before we returned to gold, and again in 1930. ... My present proposal only differs from my previous proposals in that it is somewhat more cautious in establishing a link with gold." Meltzer, *Keynes's Monetary Theory*, 230. Even Skidelsky has described Keynes's international proposal from March 1933 as "conceding to orthodoxy." Skidelsky, *Keynes: The Economist as Savior*, 472.

so on this occasion."[148] Instead, taking seriously his analogy of the monetary system as a constitutional order, Keynes explained that the gold standard as it existed was indeed "a barbarous relic" but a "barbarous relic, to which a vast body of tradition and prestige attaches, may have a symbolic or conventional value if it can be fitted into the framework of a managed system of the new pattern. Such transformations are a regular feature of those constitutional changes which are effected without a revolution."[149]

Interestingly, Keynes was now criticized in *The Times* no longer just for his dismissal of the existing gold standard but also – in a sign of how times were changing – for placing excessive limits on national policy autonomy and sovereignty.[150] In particular, the Bank of England, attuned as ever to the monetary ties that bound the colonies and Dominions to London, worried about the effect Keynes's proposals might have on the sterling exchange. If monetary control were to be vested in a new international authority, this also meant that Britain would lose control over the sterling area. Keynes responded that what now mattered more than anything else was to avert the even worse condition

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148 Keynes, "Letter to the Editor or *The Economist*," (March 20, 1933), in Keynes, *Activities 1931-1939: World Crises and Policies* [CW 21], 186.

149 Keynes, "Should Britain compromise on the gold standard?" *The Daily Mail* (February 17, 1933), in: Keynes, *Activities 1931-1939: World Crises and Policies* [CW 21], 229-230.

150 R.H. Brand, *The Times* (April 7, 1933). As Keynes explained to his critics, "my domestic and international proposals assist and supplement one another." And while they admitted did not form a coherent whole in every respect, they attempted "to make the best of a bad job." He was perfectly aware of the compromises and constraints inherent in his proposal. Keynes, "Letter to the Editor of *The Times*" (April 7, 1933), in: Keynes, *Activities 1931-1939: World Crises and Policies* [CW 21], 187.

that would result from merely drifting along. His Burkean appeal to political expediency converged on this point with his attempt to effect reform without revolution.[151]

But how is this embrace of internationalism to be reconciled with the economic nationalism of the Dublin lecture? Keynes had been pursuing both lines of thought in parallel for a while. Ever since interpreters have sought to detect an order of preference between the proposals. Was protectionism perhaps a second-best option in case the international reflationary proposal failed?[152] Did they perhaps show Keynes in two different modes of thought, one as a patriotic political thinker, the other as an economist? Were the two lines of thought somehow compatible with one another or hopelessly in contradiction?

In the event, the content of the Dublin lecture seems to have surprised an audience that had somehow expected a denunciation of tariffs and of the Irish position during the ongoing trade war between Britain and Ireland.[153] Though Keynes's lecture largely focused on trade, the question of monetary coordination and the entanglement of inter-governmental war debts was never far from the surface. The night before Keynes's Dublin lecture, Roosevelt had gathered his economic advisory team to discuss the upcoming London conference. Almost as an aside he made a casual remark that sent the entire room scrambling.[154] Referring to a pending amendment to the Agricultural Adjustment Act, Roosevelt explained that he had decided to support the amendment

151 Partially as a result, Keynes's interventions in March 1933 found great attention around the world. They marked, in Skidelsky's words, "the start of public understanding of the Keynesian Revolution" and "begat an enormous debate which went on in several countries." Skidelsky, *Keynes: The Economist as Savior*, 473.

152 Skidelsky, *Keynes: The Economist as Savior*, 476.

153 Skidelsky, *Keynes: The Economist as Savior*, 479.

154 Ahamed, *Lords of Finance*, 461. This was on the evening of April 18, 1933.

which gave him leeway to devalue the dollar against gold by up to fifty percent and issue up to $3 billion in notes without gold backing. As one participant described it, "at that moment hell broke lose in the room." One advisor "looked as if he were about to throw up."[155] As Roosevelt announced the next day, April 19, the US had officially suspended the dollar's convertibility into gold.[156] This was the very day Keynes gave his Dublin lecture calling for national sufficiency. Indeed, in the middle of the celebratory dinner following his lecture Keynes was called to the phone. When he came back, he announced to the room: "You may be interested to know that the United States has just left gold."[157]

Even Keynes was surprised. As he wrote to his mother, "My little proposals are too modest and moderate for this lunatic world."[158] Roosevelt had changed the entire situation once more and even Keynes was unsure what the move meant for the world at large. In any case, he decided not to allow the printed version of the Dublin lecture to

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155 As cited in Ahamed, *Lords of Finance*, 461. The reference was to Herbert Feis.

156 Rauchway has an elaborate discussion of when Roosevelt took the US off gold, namely whether "officially" on April 19, 1933 or already "effectively" in March 1933 upon his inauguration. Eric Rauchway, *The Money Makers: How Roosevelt and Keynes Ended the Depression, Defeated Fascism, and Secured a Prosperous Peace* (New York: Basic Books, 2015), 260n50. It was, in the words of one of FDR's advisors, in any case around "about crocus-daffodil time, 1933." See also Eichengreen, *Globalizing Capital*, 87. By the end of April, the dollar had fallen by around ten percent. While some bankers saw in the decision nothing less than "mob rule," as the dollar fell against gold the US stock market began to recover. Soon more pragmatic bankers, who had initially been ambivalent, started to express their support. Russell Leffingwell, the J.P. Morgan banker and a friend of Roosevelt, who still railed against the idea of a managed currency during the 1920s, congratulated Roosevelt, "Your action in going off gold saved the country from complete collapse. … It was vitally necessary and the most important of all the helpful things you have done." Leffingwell to Roosevelt, dated October 2, 1933. As cited in Arthur M. Schlesinger Jr., *The Coming of the New Deal, 1933-1935* (Boston and New York: Houghton Mifflin), 202.

157 Skidelsky, *Keynes: The Economist as Savior*, 480.

158 As cited in Skidelsky, *Keynes: The Economist as Savior*, 481.

appear till after the London conference scheduled for the summer.[159] Efforts to organize an international conference on the increasingly fragmented economic and monetary situation had been floated for years. By early 1933 these plans had taken shape. Over June and July 1933, sixty-six nations would gather in London to discuss the possibility for international currency stabilization. Roosevelt's decision to suspend convertibility both constituted an enormous obstacle to this goal and, at the same time, renewed the urgency of the underlying goal of international monetary coordination. After several weeks of negotiations in London about a potential agreement the conference failed in the end after Roosevelt's decisive intervention on July 3. Cabling from his yachting holiday off the coast of New England, Roosevelt called back his own negotiators and condemned any attempt at stabilization that would prevent economic recovery as a "specious fallacy" based on the "old fetishes of the so-called international bankers."[160]

While most commentators were dismayed at Roosevelt's "bombshell" telegram and the failure of the conference it implied, Keynes, who had covered the proceedings for the *Daily Mail*, gave in to his predilection of joyously swimming against the tide by hailing Roosevelt's decision as "magnificently right."[161] As Keynes explained in a newspaper commentary, "It is a long time since a statesman has cut through the cob-webs

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159 Skidelsky, *Keynes: The Economist as Savior*, 476.

160 Ahamed, *Lords of Finance*, 470. See also Tooze, *The Deluge*, 506: "On 3 July Roosevelt issued his 'bombshell telegram', denouncing any effort to stabilize the American currency as irrelevant to the business of achieving recovery. The dollar would float to whatever level suited the US economy, regardless of its impact on the rest of the world."

161 Keynes, "President Roosevelt is magnificently right," *Daily Mail* (July 4, 1933). Reprinted in Keynes, *Activities 1931-1939: World Crises and Policies*, 273-277. See also William J. Barber, *Designs within Disorder: Franklin D. Roosevelt, the Economists, and the Shaping of American Economic Policy, 1933-1945* (Cambridge: Cambridge University Press, 1996), 34-35; as well as Ahamed, *Lords of Finance*, 471.

as boldly as the President of the United States cut through them yesterday."[162] After the conference's obscure backroom dealings in the dusty Museum of Practical Geology on Jermyn Street (appropriately displaying minerals, rocks, and fossils), Roosevelt's shock announcement had thrown a sharp ray of light onto the proceedings.

What emerged was a fundamental choice between two widely divergent policies: either the hopeless European way of "clinging fanatically to their gold perches, though most of them are poised there precariously" or a leap toward Roosevelt's big experiment. Where the Europeans put their faith in a "'revival of confidence,' which is to come somehow by itself through business men gradually deciding that the world is safe for them," Roosevelt offered the more immediate promise of a better future based on a genuine break with the past. "[I]f I interpret the President's object rightly, he must not be too timid in the field of international monetary technique," Keynes noted. The London conference had illustrated once more the conflicting imperatives of recovery and international stability, as well as the enormous difficulty facing any attempt to design a system of currencies that was at once adjustable and internationally coordinated. What was required was no mere technocratic change of tack but a much broader political re-orientation. It was thus of crucial importance, Keynes explained, "that the general public should understand the broad outline of what has happened in the last week."[163]

While the possibility of a stabilization agreement in London had implied a period of relative stability in the price of the dollar during the summer months of 1933, in the wake of the failed conference, Roosevelt's administration now made use of its new

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[162] Keynes, "President Roosevelt is magnificently right," *The Daily Mail* (July 4, 1933), in Keynes, *Activities 1931-1939: World Crises and Policies*, 273-277.

[163] Keynes, "President Roosevelt is magnificently right," *The Daily Mail* (July 4, 1933), in Keynes, *Activities 1931-1939: World Crises and Policies*, 273-277.

prerogative in a somewhat idiosyncratic fashion.[164] Suspending convertibility did not initially mean abandoning gold for the US. Instead, Roosevelt gradually depreciated the dollar by purchasing gold at progressively higher prices. For three months, every morning Roosevelt would dictate to his advisors the day's gold price from his bedroom over soft-boiled breakfast eggs. "One of the most bizarre episodes in the history of currency policy," as one historian has described it.[165] When raising the price of gold one morning by exactly twenty-one cents, Roosevelt explained with a laugh, "it's a lucky number because it's three times seven."[166] By early 1934, the dollar price of an ounce of gold had risen from $20.67 (its price under the gold standard) to the arbitrary but somehow satisfying price of $35 an ounce.[167]

Keynes watched the developments very closely, encouraged by the gradual devaluation of dollar but confused by Roosevelt's way of going about it. By the end of 1933 Keynes followed up on his first assessment of Roosevelt by writing, upon the encouragement of Felix Frankfurter, an "Open Letter to President Roosevelt" that was published both in London and the *New York Times*.[168] Addressing himself directly to

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164 Eichengreen, *Globalizing Capital*, 87.

165 Ahamed, *Lords of Finance*, 472-473. Morgenthau described the scene as follows: Roosevelt "would lie comfortably on his old-fashioned three-quarter mahogany bed. A table stood on each side; on his left would be a batch of government reports, a detective novel or two, a couple of telephones. On his right would be pads, pencils, cigarettes, his watch and a plate of fruit. Hearty and refreshed after a night's rest, he would eat his soft-boiled eggs." John Morton Blum, *From the Morgenthau Diaries, Vol. 1, Years of Crisis, 1928-1938* (Boston: Houghton Mifflin, 1959), 69.

166 Blum, *Morgenthau Diaries, Vol. 1*, 69-70. As cited in Conway, *The Summit*, 83.

167 Eichengreen, *Globalizing Capital*, 87. Conway, *The Summit*, 84.

168 Keynes, *Activities 1931-1939: World Crises and Policies*, 289-296. John Maynard Keynes Papers, King's College, Cambridge, A/33/2 [reel 45]. Frankfurter, then Professor of Administrative Law at Harvard Law School but on sabbatical in Oxford, had been Keynes's guest for the Founder's Feast at King's College on December 6, 1933. At some

Roosevelt, Keynes explained in the letter, "You have made yourself the trustee for those in every country who seek to mend the evils of our condition by reasoned experiment within the framework of the existing social system."[169] But if Keynes's hope rested on Roosevelt, he did not hesitate to point to what he considered the shortcomings of Roosevelt's first nine months in office. In particular, Keynes was one of the first to warn FDR about the tensions between reform and recovery. In particular, the decision to focus vast administrative energies on the National Industrial Recovery Act appeared to Keynes "a wrong choice in the order of urgencies."[170] Roosevelt had been right to let the dollar depreciate and prices rise. Recovery required rising prices but this should not be confused with the idea that rising prices on their own would be able to raise output. Keynes captured part of this worry in the metaphor that expanding one's belt was clearly insufficient to gain weight.[171] Roosevelt's morning ritual of rather arbitrarily setting the gold price for the day could in this context hardly be described as the deliberate control of the money supply Keynes had been calling for. Instead, to Keynes it looked more like

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point during the seven-course dinner with wine; Frankfurter began to prod Keynes to write a letter of advice to Roosevelt. Upon his return to Oxford, Frankfurter reminded Keynes of the plan they had hatched. "I do hope you'll find it convenient to write the kind of letter that we sketched in our talk for transmission to the President. For he is 'the trustee of experimentation' and I know that formulated directions from you may greatly help matters." As quoted in Moggridge, *Keynes*, 580. See also Keynes, *Activities 1931-1939: World Crises and Policies*, 289. Rauchway, *The Money Makers*, 95.

169 John Maynard Keynes, "An Open Letter," *New York Times* (December 31, 1933). Reprinted in Keynes, *Activities 1931-1939: World Crises and Policies* [CW 21], 289-296; here: 289. Also quoted in Ira Katznelson, *Fear Itself: The New Deal and the Origins of Our Time* (New York: W.W. Norton, 2013), 5.

170 John Maynard Keynes, "An Open Letter," in Keynes, *Activities 1931-1939: World Crises and Policies* [CW 21], 291.

171 John Maynard Keynes, "An Open Letter," in Keynes, *Activities 1931-1939: World Crises and Policies* [CW 21], 294. Leffingwell concurred: "You can lead the horse to water (cheap money) but you cannot make him drink." As cited in Skidelsky, *Keynes: The Economist as Savior*, 509.

"the gold standard on the booze."[172] What nonetheless united Keynes and Roosevelt was less a shared, coherent vision of the future of the international monetary system than an acknowledgement of the "economic experiments" that offered the only path forward.[173] Roosevelt may have as little idea of where he was landing as a pre-war pilot, Keynes explained, but at least he was up in the air.

Roosevelt's decision to suspend convertibility and let the dollar float appeared to many commentators then and now as a decisive turn against internationalism in favor of a parochially nationalist focus on the US economy, "regardless of its impact on the rest of the world."[174] Keynes appears on this view complicit in placing domestic recovery above international politics. While Britain's abandonment of gold in September 1931 produced a more sustainable exchange rate for sterling and set Britain on the path of economic recovery, in other countries the breakdown of the interwar gold standard paved the way for insurgent recovery through militarism – most notably in Japan.[175] For France too the American devaluation was nothing short of a disaster. Despite its mounting gold reserves, France had already been hit by the British decision to leave gold. The American exit now vastly compounded the problem.

But if the collapse of the gold standard in 1931-1933 appears as a vindication of Keynes's insistence to liberate currencies from gold, it would be wrong to attribute to

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172 Keynes, *Activities 1931-1939: World Crises and Policies* [CW 21], 289-296.

173 Keynes, "Roosevelt's Economic Experiments," *The Listener* (January 17, 1934), in Keynes, *Activities 1931-1939: World Crises and Policies*, 305.

174 Tooze, *The Deluge*, 506. Consider Roosevelt's explanation in October 1933, "our dollar is altogether too greatly influenced by the accidents of international trade, by the internal policies of other nations and by political disturbances in other continents. Therefore the United States must take firmly in its own hands the control of the gold value of the dollar." As cited in Ahamed, *Lords of Finance*, 471.

175 Tooze, *The Deluge*; Metzler, *Lever of Empire*.

Keynes either the turn away from internationalism that followed, or indeed the nationalist motives of many of its protagonists. For Keynes, 1931-1933 underscored the need to allow for deliberate monetary policy but this did not mean letting currencies float; rather, it was a question of finding ways to allow for fixed exchange rates whose parity could nonetheless be adjusted if necessary. Inevitably, the choices on offer were far less appealing and Keynes unerringly sided with experimentation. As he knew only too well, abandoning gold was not in itself the solution but only made possible an experimental, interventionist search for a new solution. Leaving the old system behind was merely the opening move in the construction of a new international monetary system that would neither require domestic sacrifices nor give rise to competitive international behavior.

4.6 Monetary Eutopia

As Keynes had argued in the *Treatise on Money*, a managed "floating" currency provided a far less destructive way of adjusting to external macroeconomic shocks than the old recipe of slow and painful wage adjustments.[176] But while this appeared to favor a path toward monetary nationalism, already in the second volume of the *Treatise on Money* Keynes had hinted at forms of international cooperation and coordination – perhaps some kind of international central bank – that could dissolve the dilemma. "The ideal arrangement," he explained, "would surely be to set up a supernational bank to which the central banks of the world would stand in much the same relation as their own

[176] John Maynard Keynes, *A Treatise on Money: The Pure Theory of Money* [1930], The Collected Writings of John Maynard Keynes, Vol. 5 (Cambridge: Cambridge University Press, 2012) [CW 5].

member banks stand to them."[177] In his Clearing Union Proposal, Keynes followed up on this speculative suggestion, sketching in detail what a global reserve currency might look like that would contain and manage the domestic and international politics of money.

Above all, Keynes aimed at avoiding or containing competitive international behavior both in the economic and political realm.[178] As such, the proposal coupled demands for international disarmament to a wholesale institutionalization of financial discipline, not merely for debtor countries but also – crucially – for net creditor countries running current account surpluses. Keynes was insistent that a just international monetary order ought to reflect provisions not only to limit the exposure of creditor countries but also against the exploitation of borrower countries.[179] Keynes's overriding goal was now to find an institutional equivalent that could also force surplus nation to recycle their trade surpluses.

Crucially, Keynes recognized that these were not merely technical economic questions but required a politics of both politicization and depoliticization. In his proposal, Keynes consequently insisted on the need for subtle institutional ways to allow for the occasional intrusion of politics into the management of the economy if necessary. If this seemed to invoke a state of exception, Keynes proposed at the same time – pace Schmitt – to regulate such states of exceptional politics within a framework of meta-rules that differed from those rules prevailing under normal circumstances. Violations by excess creditor or debtor countries would initially trigger punitive payments according to

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177 Keynes, *A Treatise on Money: The Applied Theory of Money* [CW 6], 358.

178 Keynes, "International Currency (or Clearing) Union," par. 51-52.

179 Keynes, "International Currency (or Clearing) Union," par. 16. Already the League of Nations had contained provisions to force deficit countries to adjust.

given rules, but these could be escalated and politicized if necessary.[180] Most importantly, Keynes argued that the desire to depoliticize would have to be in good faith and could not afford to lose sight of the politics necessary to achieve fair depoliticization. Even in distancing economic life from politics, Keynes stressed the need for tools of governing capable of upholding the depoliticization or adjusting it politically if it threatened to become noxious.

In the closing section of his seminal *General Theory* of 1936, Keynes had suggested a way to reconcile the seemingly contradictory forces of policy autonomy and international coordination. Where in Dublin Keynes had recommended blundering toward bold experimentation precisely because he could not detect a clear path out of the economic and political impasse of the Great Depression and the crises of the interwar years in general, in the *General Theory* he proudly announced that he had discovered the policies necessary to reconcile national with international economic and political well-being.[181] Were all countries to pursue his policies simultaneously, Keynes explained, the result would be to restore economic health both nationally and internationally.[182] National experimentation was no longer required economically speaking, though there would still

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180 Keynes, "International Currency (or Clearing) Union," par. 19.

181 As Keynes wrote to George Bernard Shaw on New Year's Day 1935: "To understand my new state of mind, however, you have to know that I believe myself to be writing a book on economic theory which will largely revolutionize – not, I suppose, at once but in the course of the next ten years – the way the world thinks about its economic problems." John Maynard Keynes, *The General Theory and After: Part II. Defence and Development*, ed. Donald Moggridge, The Collected Writings of John Maynard Keynes, Vol. 14 (Cambridge: Cambridge University Press, 1973) [CW 14], 492.

182 "It is the simultaneous pursuit of these [his] policies by all countries together which is capable of restoring economic health and strength internationally, whether we measure it by the level of domestic employment of by the volume of international trade." Keynes, *The General Theory* [CW 7], 349.

be need for it politically and socially. Instead, Keynes's theory opened up the possibility of a new economic internationalism that was no longer the odious beggar-thy-neighbor internationalism of the gold standard but reconciled national demands with international benefits. This was no longer a proposal to close the commercial state along Fichte's lines but the tantalizing promise to make good on international trade's original promise of fair exchange and peaceful commerce.

Inverting Thomas More's original pun, Keynes insisted that his vision was not a non-place, *u-topia*, but a good place, *eu-topia*, that was practically feasible.[183] While insisting that his proposal was not impractical, Keynes conceded that "it assumes a higher degree of understanding, of the spirit of bold innovation, and of international cooperation and trust than it is safe or reasonable to assume."[184] But then given the spectacular failure of the London Economic Conference ten years earlier it was precisely the "complete break with the past" brought about by the war that "offers us an opportunity."[185] Keynes was convinced that the advantages of an international reserve currency were so great that even the United States would have an interest in seeing its trade credit recycled for the benefit of the world economy. The daring means by which Keynes promised to reconcile the old principles of economic liberalism with the new necessity for flexible and autonomous policy based on a generalized concept of fair reciprocity, dazzled his interlocutors. Dennis Robertson, a Cambridge colleague who had fallen out with Keynes

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183 Keynes, "Not Utopia but Eutopia: the International Clearing Union," JMK Papers, King's College, Cambridge, W/6/1 (August 4, 1942). This plan – including Keynes's subtitle – was also sent to Washington. Conway, *The Summit*, 135; Robert Skidelsky, *John Maynard Keynes: Fighting for Britain, 1937-1946* (London: Macmillan, 2001), 247.

184 As cited in Conway, *The Summit*, 127.

185 As cited in Conway, *The Summit*, 127.

the *General Theory*, now wrote to him full of admiration. "I sat up last night reading your revised 'proposal' with great excitement and a growing hope that the spirit of Burke and Adam Smith is on earth again."[186]

In his earliest sketches, Keynes had straightforwardly built on his suggestion from the *Treatise* and planned the new international financial architecture unabashedly around a global central bank, acting in strict analogy to its domestic equivalents. But in preparation for the negotiations with the Americans, several members of the Treasury team urged Keynes to drop anything that could possibly smack too much of "supranational government."[187] As a result, in the different versions of his proposal Keynes seemed to run two parallel arguments. On the one hand he insisted that monetary sovereignty would continue to rest with the member states and that it would not impose greater duties or infringements on sovereignty than existing treaties. But at the same time he added at several points subtly concealed hints that the Clearing Union might nonetheless contain the seeds of a supranational organization that would eventually come to exceed the original treaty-like set up and include some elements of a genuine supranational "constitution" and a "constitutionalization of treaties."[188]

Keynes had many ideas of what to call the new international currency his clearing union would be based on: "Unitas," "Bancor," "Demos," and "Victor" were all possibilities but being somewhat dissatisfied with them, he asked the public to send in their own suggestions. A colorful palette emerged: "Bit," "Fint," "Proudof," "Poundol,"

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186 Dennis Robertson to Keynes, dated November 27, 1941. Keynes, *Activities 1940-1944: The Clearing Union* [CW 25], 66. As cited in Conway, *The Summit*, 128.

187 Conway, *The Summit*, 128. Bob Brand, a Lazard banker now on the British Treasury team headed to Washington, particularly pushed this concern.

188 Keynes, "International Currency (or Clearing) Union," 15, 26, 34, 72.

as well as Keynes's favorite, "Orb."[189] The idea of an international currency stirred up global excitement in 1943 but it was also dismissed as a far-fetched crack-pot idea. Indeed, for Harry White and many of the Americans working on postwar economic planning it was far from obvious that the new financial architecture would do entirely away with gold. Gold was not only, according White, "the best medium of international exchange yet devised" but ninety percent of it were now, fortuitously, sitting in American bank vaults.[190]

As a result of these differences both the US and Britain were desperate to keep their competing plans secret. "These things are too early," Roosevelt admonished Morgenthau. "We haven't begun to win the war."[191] But after parts of the American scheme were leaked to the press in April 1943, there was little choice other than to take the initiative. Both the British and American proposals were presented to the public.[192] Keynes seized the opportunity to launch a campaign of public education. For his maiden speech in the House of Lords in May 1943 Keynes consequently chose to focus on the International Clearing Union. As he declared at the beginning of his remarks, "The economic structure of the post-war world cannot be built in secret."[193] If secrecy was no longer an option, opening up even the rough outlines of negotiations to the public triggered a mighty rush of skepticism, in particular in the US. The most severe criticism came, inevitably, from almost all the Wall Street banks as well as the New York Federal

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189 Conway, *The Summit*, 140.

190 White Papers, Princeton, Box 8/24. As cited in Conway, *The Summit*, 131.

191 Morgenthau Diary 622, 8-9. As cited in Conway, *The Summit*, 139.

192 Conway, *The Summit*, 135-139.

193 Keynes, *Activities 1940-1944: The Clearing Union* [CW 25], 269-280; here: 269.

Reserve.[194] As a response, the US government launched what the Herald Tribune described as "the most high-powered propaganda campaign in the history of the country."[195]

Not least due to the public scrutiny, White frequently and intentionally sought to make the terms as complicated and convoluted as possible in the hope of disguising the real workings of the plan from the other signatory countries as well as, not to mention Congress. Keynes saw through White's tactic of confusion but this did not stop him from regularly erupting in frustration at the endless legal twists he encountered in White's plan: "Having put these lunatic robes on his Frankenstein he then proceeds at various stages to introduce jokers, which might actually cause the scheme to work out in practice in a way exactly the opposite of what it appears to be on the surface."[196]

As it was, Keynes's optimism underestimated the opposition to his constitutional vision of a rule-bound international reserve currency that would not only discipline weak peripheral countries but also the rising net creditor superpower. Unsurprisingly, the US thought very little of being bound by its indebted ally, a rapidly declining European imperial power that refused to see its diminished world political standing for what it was. Despite the shared drafting process, Bretton Woods unsurprisingly reflected the rapidly changing power constellations. Instead of pivoting around a new international currency, Bretton Woods was a US-centered system based on the dollar that explicitly favored net

194 Conway, *The Summit*, 297. As the New York Fed put it, "the plans for an International Monetary Fund, which have culminated in the Bretton Woods Agreement, are not only based on mistaken principles but risk eventual failure which would bring further discredit upon the cause of internationalism."

195 Conway, *The Summit*, 298.

196 Keynes to Wilfrid Eady, dated October 3, 1943. Keynes, *Activities 1940-1944: The Clearing Union* [CW 25], 362-364. As quoted in Moggridge, *Keynes*, 730.

creditor countries.[197] But this also meant that the role accorded to gold in the Bretton Woods system was at best symbolic. Though disappointed by his failure to convince the Americans to base the system on a new international currency, Keynes was at the same time adamant that the proposal on the table was in no way a reversal to a new old gold standard but instead constituted a significant step forward. "If I have any authority to pronounce on what is and what is not the essence and meaning of a gold standard, I should say that this plan is the exact opposite of it."[198] As Morgenthau put it, unlike the ambiguous dollar diplomacy of the interwar years the new international monetary institutions of Bretton Woods would be "instrumentalities of sovereign governments and not of private financial interests."[199]

But even if Bretton Woods was a step forward and not a new gold standard, the contours of Britain's humiliating treatment at the hands of its American creditor were becoming harder and harder to ignore. By September 1944, Keynes openly expressed doubts as to whether Britain should ratify the Bretton Woods Agreement, in particular if the Americans were to cut off Britain's desperately needed lend-lease financing. Perhaps the agreed upon "post-war transitional period" before the system became operational,

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197 For the recent historiography of Bretton Woods, see Benn Steil, *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order* (Princeton: Princeton University Press, 2013), Eric Helleiner, *Forgotten Foundations of Bretton Woods: International Development and the Making of the Postwar Order* (Ithaca: Cornell University Press, 2014), and in particular the excellent account in Conway, *The Summit*. Transcripts of the conference have recently been published as Kurt Schuler and Andrew Rosenberg, eds., *The Bretton Woods Transcripts* (New York: The Center for Financial Stability, 2013).

198 John Maynard Keynes, *Activities 1941-1946: Bretton Woods and Reparations*, ed. Donald Moggridge, The Collected Writings of John Maynard Keynes, Vol. 26 (Cambridge: Cambridge University Press, 2013) [CW 26], 17.

199 Henry Morgenthau, Letter to President Truman, quoted in *The New York Herald-Tribune,* March 31, 1946. Also quoted in Metzler, *Lever of Empire*, 265.

Keynes hoped tentatively, might go on indefinitely.[200] Most immediately, this sentiment derived from Britain's rapidly weakening bargaining position and the lack of any American inhibitions at taking advantage of its indebted ally. But behind such patriotic struggles and inevitable humiliations we can also detect the depoliticized nature of Keynes's vision for the postwar world. When it became clear that America got its way and that the International Monetary Fund and the World Bank would not be based in London (or even New York) but instead in Washington, DC, Keynes not only felt the pain of seeing London's financial position further weakened but also worried the Fund would become overly politicized.[201] This also expressed itself in Keynes's vision of the Fund's working. Where Keynes had envisioned a lean and largely automatic credit provider tied to a subtle set of rules and mechanisms, White had in mind a technocratic powerhouse providing all-round expertise. Where Keynes envisaged around thirty technicians supervising the semi-automatic mechanics of the Fund, White saw a staff of several hundred economists.[202]

If national economic policy autonomy had received its most radical articulation in the Dublin lecture, in the *General Theory* and in his plans for an International Clearing Union Keynes complemented this emphasis on autonomy with an attempt to salvage

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200 Skidelsky, "Keynes's Road to Bretton Woods," 150; Armand Van Dormael, *Bretton Woods: Birth of a Monetary System* (London: Palgrave Macmillan, 1978), 228, 237; Keynes, *Activities 1941-1946: Bretton Woods and Reparations* [CW 26], 134.

201 In his closing speech in Savannah, Keynes wondered whether the twins "Master Fund and Miss Bank" might be cursed: "You two brats shall grow up politicians; your every thought and act shall have an *arrière-pensèe*; everything you determine shall not be for its own sake or on its own merits but because of something else." Keynes, *Activities 1941-1946: Bretton Woods and Reparations* [CW 26], 215-217. As cited in Conway, *The Summit*, 346.

202 Conway, *The Summit*, 349. Keynes was consequently the only one to vote against the proposed salary packages.

international trade through a combination of appropriate domestic economic policies and an international monetary regime that could avoid mutually destructive behavior. Rather than simply forming a straightforward echo of Fichte's vision, Keynes is better seen as mediating between Fichte's proposal of a fully politicized closed commercial state and Locke's depoliticization of money in the service of international trade. Keynes's shift from the economic nationalism of the early 1930s to the internationalism of the Clearing Union represented not so much a conversion as the evolution of a longstanding preoccupation with what it would be mean to constitutionalize money.[203]

4.7 Conclusion

I began the first chapter of this dissertation with John Maynard Keynes's plunge into the Athenian politics of money in the winter of 1923-24. As Keynes concluded based on the careful study of the long lost Aristotelian *Constitution of the Athenians*, the history of political thinking about money began with Solon who on Keynes's reading was the first statesman whom history recorded as having consciously altered the value of money.[204] I followed up on this pointer to the Athenian birth of monetary politics by re-reading Aristotle's conception of currency as a constitutive institution of civic reciprocity in the ancient polis. In the subsequent two chapters I then traced two radically divergent echoes of this claim at the threshold to modernity in the form of John Locke's and Johann Gottlieb Fichte's political theories of money. As I argued in this chapter, Keynes's political theory of money navigates the problems of a liberal politics of depoliticization

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203 Skidelsky, "Keynes's Road to Bretton Woods," 125-151.

204 Keynes, "Note on the Monetary Reform of Solon," [CW 28], 223-294. See also John Maynard Keynes Papers, King's College, Cambridge, TM/2/1-65.

as well as the fault lines between the boundedness of national monetary orders and competing cosmopolitan visions of international money. In doing so, it offers a welcome opportunity to complicate simplistic oppositions between politics and economics, and between nationalism and internationalism. In their place, Keynes offered an radically novel perspective that brings to the fore the mutual interdependencies of politics and economics, transcending facile oppositions between sovereignty and cosmopolitanism.

Keynes insisted with great verve and eloquence on the need to bring money under deliberate and politically legitimate control by removing it from the naturalistic illusions of the gold standard as an international monetary regime that distributed burdens unfairly and disguised its own political nature. But despite his critique of the gold standard Keynes nonetheless shared a keen sense of the liberal desirability of economic depoliticization, of the challenges national democratic politics poses for monetary policy, and the need for an internationalist solution to the politics of money. In his attention to the hybrid nature of money, suspended between politics and anti-politics, between national autonomy and international cooperation, Keynes provided a conceptual tool kit for a constitutional theory of money that takes those mutual dependencies into account. Instead of having to choose between the politicization and depoliticization of money, Keynes's call for the constitutionalization of currency takes us to the limits of a liberal politics of depoliticization that seeks to neutralize economic relations in the service of social justice. His constitutional approach to the politics of depoliticization allows for economic neutralization as long as its terms are fair and do not exclude the possibility of politics as a necessary corrective.

As Keynes knew, this stress on the need for technocratic expertise potentially left his account of economic management ill at ease with certain forms of democratic politics even where he was committed to the principle of experimentation.[205] But it was at the same time always a misleading distortion to equate Keynes's position with postwar "Keynesianism" in its untroubled reliance on fiscal fine-tuning along national lines. By reading Keynes first and foremost as a theorist of money, I have suggested a twofold corrective, stressing the political dimension of his thought even where it ultimately sided with a politics of depoliticization, and highlighting how his call for national policy autonomy was always embedded in a preference for internationalism.

[205] As Robert Heilbroner once put it, it was this "curious combination of an engineering mind and a hopeful heart" that marked Keynes's greatness. Robert L. Heilbroner, *The Worldly Philosophers: The Lives, Times And Ideas Of The Great Economic Thinkers* (New York: Simon and Schuster, 1953), 276.

– Chapter Five –

SILENT REVOLUTION
Jürgen Habermas and the Missing Political Theory of Money

The virtue of the market is that it disperses responsibility.[1]

—Daniel Bell, 1976

5.1. Introduction

Ever since the introduction of coinage into the Mediterranean world in the sixth century BCE discussions of money as a political institution were a staple of Western political thought. When we turn to contemporary political theory this can come as a surprise. One part of the story, I have suggested, has to do with the way in which modernity meant a reframing of the politics of money within the new parameters of a liberal politics of monetary depoliticization. But this can only capture part of reason for the striking absence of money in contemporary political thought. Over the past forty years there has been an explosion of normative political theory as the work of John Rawls and his students reshaped Anglophone political philosophy and as a new generation of Frankfurt School thinkers, led by Jürgen Habermas, rethought the foundations of critical theory.[2] But despite this boost of esteem and confidence, whether in the guise of

1 Daniel Bell, *The Cultural Contradictions of Capitalism* (New York: Basic Books, 1976), 197.

2 As the cliché has it, political theory was resurrected during the 1970s after Peter Laslett had famously declared in 1956 that "for the moment, anyway, political philosophy is dead." Peter Laslett, "Introduction," in *Philosophy, Politics and Society, Series 1*, ed. Peter Laslett (Oxford: Basil Blackwell, 1956), vii.

Rawlsian liberalism or Habermasian communicative theory, political theory today largely disavows the political malleability of money. Liberal ideal theory agnostically abstracts away from institutional questions of monetary politics while Habermas has reduced money in his mature social theory to a "norm-free steering medium" that merely functions as a "de-linguistified [*entsprachlicht*] medium of exchange."[3] Money, on this view, appears as a quintessentially economic tool against which emancipatory politics must be defended.[4]

Considered in the light of the history of political thought and its rich discussions of currency as both a tool of government and a bond of civic reciprocity, this contemporary neglect of the politics of money strikes one as odd. As I will argue in this chapter, contemporary political theorists' disavowal of the politics of money becomes even more intriguing when seen in the context of the radical monetary changes of the past thirty years. Rarely in the history of the West had money been as politically salient as in the 1970s. With the collapse of the Bretton Woods system between 1971 and 1973 money was fully untethered from gold. For the first time, outside of war conditions, all states exercised full and universal control over their currencies. How are we to square this new centrality of monetary politics with subsequent neglect in political theory?

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[3] Jürgen Habermas, *The Theory of Communicative Action, Vol. 1: Reason and the Rationalization of Society [1981]*, trans. Thomas McCarthy (Boston: Beacon Press, 1984) [TCA 1], 359; Jürgen Habermas, *Theorie des Kommunikativen Handelns* (Frankfurt am Main: Suhrkamp, 1981), Band 1 [TCA 1], 480.

[4] Consider in particular the telling way in which recent critiques of commodification have been framed by opposing money to morality and reducing it to markets. Michael J. Sandel, *What Money Can't Buy: The Moral Limits of Markets* (New York: Farrar, Straus and Giroux, 2012); Debra Satz, *Why Some Things Should Not Be For Sale. The Moral Limits of Markets* (Oxford and New York: Oxford University Press, 2010).

In this chapter I argue that these two trends are neither unrelated nor do they express an irony of historical mismatch. The recent eclipse of the political theory of money emerged not despite but in response to the politicization of money during the 1970s.[5] It was the depoliticization of money in the name of combatting inflation since the late 1970s that allowed Habermas and others to place money outside of politics, thereby unwittingly immunizing the new monetary constitution against critique. In light of this political depoliticization of money since the late 1970s the contemporary neglect of money by political theorists is more symptomatic than ironic.

In reading political theory's relation to money in the context of the recent historiography of late twentieth-century political thought I thus hope to provide a sense of how contemporary political theory developed not in a philosophical vacuum but in the light of radical changes in the relation between politics and economics during the last quarter of the twentieth century. Looking back from the early twenty-first century, the 1970s have emerged as a defining decade of transition to the contemporary era, marking a period that witnessed the shift from postwar welfare states to rights-based cosmopolitanism in theory and global financial liberalization and American unilateralism in practice.[6] It is the economic upheaval of the 1970s that separates us from the *trente*

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5 The historical and philosophical reasons for Rawls's neglect of money differ from those of the 1980s in being rooted, methodologically, in the institutional abstraction and agnosticism of ideal theory as well as, historically, in the fact that Rawls developed his *Theory of Justice* precisely during the two decades during which the Bretton Woods system institutionalized and constrained the domestic politics of money. See below.

6 Samuel Moyn, *The Last Utopia: Human Rights in History* (Cambridge, MA, 2010); Katrina Forrester, "War and the Origins of International Ethics in American Political Philosophy 1960-1975," *Historical Journal* 57, no. 03 (September 2014), 773-801; Mark Mazower, *Governing the World: The History of an Idea* (New York: Penguin, 2012); Daniel J. Sargent, *A Superpower Transformed* (Oxford: Oxford University Press, 2015).

glorieuse of postwar capitalism.[7] Accompanying the intrusion of economic crisis was a sense that modernity itself had been fractured.[8] Be it postmodernity or an "unfinished, second tradition of modernity," contemporary observers shared a common experience of living through a philosophical rupture.[9]

If the 1970s were a period of rupture, nowhere was this more the case than in monetary matters. The end of the Bretton Woods monetary system between 1971 and 1973 meant nothing less than a revolution in the modern monetary constitution. Initially, the collapse of the postwar monetary constitution opened up unprecedented possibilities for a renewed politics of money. But the fundamental institutional challenge of how to reconcile democracy with an age of universal fiat monies was immediately tested by a sharp acceleration of inflation. In two centuries of modern economic history, the inflation that set in during the early 1970s was the worst ever experienced outside wartime or postwar conditions.[10] The 1970s were a period of intense politicization of economic

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7 Mark Blyth, *Great Transformations. Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge: Cambridge University Press, 2002); Jean Fourastié, *Les Trente Glorieuses, ou la révolution invisible de 1946 à 1975* (Paris: Fayard, 1979); Thomas Piketty, *Capital in the Twenty-First Century*, trans. Arthur Goldhammer (Cambridge MA: Harvard University Press, 2013).

8 Daniel T. Rodgers, *Age of Fracture* (Cambridge MA: Belknap Press, 2011).

9 Jürgen Habermas, "Modernity: An Unfinished Project," in *Habermas and the Unfinished Project of Modernity. Critical Essays on The Philosophical Discourse of Modernity*, ed. Seyla Benhabib and Maurizio Passerin d'Entrèves (Cambridge MA: The MIT Press, 1997). See also Jürgen Habermas, "Conceptions of Modernity. A Look Back at Two Traditions," in *The Postnational Constellation. Political Essays*, translated, edited and with an introduction by Max Pensky (Cambridge MA: The MIT Press, 2001), 130; as well as Ulrich Beck, *Risk Society. Towards a New Modernity* (London: SAGE, 1992).

10 The historiography of the Great Inflation is still remarkably thin once self-justifying practitioner histories by central bankers and conservative morality tales are excluded. For a historiographical overview and a first attempt at synthesis see Stefan Eich and Adam Tooze, "The Great Inflation," in *Vorgeschichte der Gegenwart*, ed. Anselm Doering-Manteuffel, Lutz Raphael, and Thomas Schlemmer (Göttingen: Vandenhoeck &

relations not only domestically in the form of inflation and strikes but also internationally in the form of efforts associated with the Organization of Arab Petroleum Exporting Countries (OPEC) and demands by the New International Economic Order (NIEO) to restructure international economic relations. But toward the end of the inflationary 1970s, the politics of money changed dramatically once more. States closed down the political possibilities of fiat money and consciously depoliticized money on new terms. This most recent political transformation was a direct reaction to the experience of inflation. By the mid 1980s, the inflationary threat would be conquered as a new politics of anti-inflationism oversaw the institutionalization of novel modes of economic discipline. Research divisions of the now independent central banks heralded the onset of a "Great Moderation."[11]

Today, the period between the early 1980s and the Financial Crisis of 2008 is often cast as an age marked by the privatization and depoliticization of economic relations. This shift has on the flipside given rise to a widespread sense that democratic processes have somehow been emptied out. Some have consequently declared ours the age of "post-democracy."[12] Wolfgang Streeck has similarly referred to an already advanced process of "the de-democratization of capitalism through the de-economization

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Ruprecht, 2015). On international monetary politics the standard work is Harold James, *International Monetary Cooperation since Bretton Woods* (Oxford: Oxford University Press, 1996). On the dollar in American foreign policy of the 1970s, see Sargent, *A Superpower Transformed*, ch. 4.

11 The "Great Moderation," so proclaimed Ben Bernanke in 2004, meant that policy-makers had found a new and stable synthesis of markets and minimal, rule-bound government intervention. Ben S. Bernanke, "The Great Moderation," Remarks by Governor Ben S. Bernanke at the meetings of the Eastern Economic Association, Washington, DC (February 20, 2004).

12 Colin Crouch, *Coping with post-democracy* (London: Fabian Society, 2000); Colin Crouch, *Post-Democracy* (London: Polity, 2004).

of democracy."[13] As scholars of financialization have pointed out, the changes since the early 1980s constitute nothing less than a "quiet revolution."[14] Its effects are hard to overstate. Governments removed central banks from direct democratic politics (making them instead nominally independent) and self-consciously constrained themselves in their ability and willingness to politicize economic conflicts.[15] European countries meanwhile began first experiments of monetary unification without matching political institutions of economic governance.[16]

In this chapter I will trace the political and philosophical contours of this latest wave of depoliticization by reading Habermas's shifting account of money and the economy in the context of the politics of first inflation and then disinflation during the 1970s and 1980s. To do so, I will follow the conceptual outlines of Habermas's changing account of the politics of the economy and money in two parallel narratives. First, I will reconstruct those aspects that remained relatively constant or in any case provided a *basso continuo* – such as Habermas's reliance on a differentiation narrative of politics and economics that implied a political neutralization of economic questions. Secondly, I

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13 Wolfgang Streeck, *Gekaufte Zeit. Die vertagte Krise des demokratischen Kapitalismus* (Berlin: Suhrkamp, 2013), 8; Wolfgang Streeck, *Buying Time: The Delayed Crisis of Democratic Capitalism*, trans. Patrick Camiller (London and New York: Verso, 2014), 5.

14 Alasdair Roberts, *The Logic of Discipline: Global Capitalism and the Architecture of Government* (Oxford: Oxford University Press, 2010).

15 For the general notion of a politics of depoliticization, see Peter Burnham, "New Labour and the politics of depoliticisation," *The British Journal of Politics & International Relations*, Volume 3, Issue 2 (June 2001), 127-149. As well as Greta Krippner, *Capitalizing on Crisis. The Political Origins of the Rise of Finance* (Cambridge MA: Harvard University Press, 2011), 16, 25, 147.

16 Harold James, *Making the European Monetary Union* (Cambridge MA: Harvard University Press, 2012).

will pay attention to the way in which Habermas's assessments and positions shifted as money and economic relations were first politicized during the 1970s and then depoliticized again on new terms during the late 1970s and early 1980s. In Habermas's neglect of the politics of money we can thus detect two separate impulses: one that conceives of the modern economy as "structurally depoliticized;" and another that tracks and reflects the politics of money of the 1970s and 1980s.

I turn to Habermas then both as a symptom of a broader depoliticization of money and as a perceptive guide to the underlying pressures that motivated this development. Habermas's vast social theory has emerged as the most fully articulated, all encompassing philosophical system of our present. For this reason alone it is worthwhile to gain an appreciation of the tacit political and economic choices embedded in it and the way these subtly shifted over time – not least because doing so enables us to see how his system might have allowed for different paths than that traveled by Habermas himself. As I show through a close reading of Habermas's writings and interviews from the 1970s and 1980s, his *Theory of Communicative Action* (1981) was always conceived as a response to questions very different from those that would come to dominate the second half of the 1980s and that continue to preoccupy us today. Rather than anticipating the impact of neoliberal economic policies of disinflation, the fragility of the welfare state, or the tide of financialization that would radically reconfigure economic relations from the 1980s onwards, Habermas saw himself responding to late 1970s worries about "anti-rationalism" and the cultural repercussions of the welfare state. As he explained, the *Theory of Communicative Action* was intended as a double response: on the one hand, a defense of modern reason but also, on the other hand, a tacit acknowledgement of the cultural contradictions of welfare capitalism. While most of the reception of Habermas's work has, for good reasons, focused on the former (his account of reason), in this chapter I emphasize the latter.

While Habermas has repeatedly provided elaborate accounts of the transition from the classical liberal capitalism of the nineteenth century to the "late capitalism" of the mid-twentieth century, he lived through another great historical transformation without immediately theorizing this changing context. Although Habermas presented an extraordinarily perceptive account of the political pressures and contradictions of an administrative welfare state struggling to shore up legitimacy under the crisis conditions of late capitalism, he – like many others – failed to anticipate the possibility of a neoliberal cutting of the Gordian knot in the form of a disinflationary politics of economic depoliticization. Habermas's account was, in other words, insufficiently attuned to the possibilities of transformative political agency that would radically reshape economic and political relations on the back of the disinflationary monetary developments of the late 1970s and 1980s. Habermas's pointer toward the cultural contradictions of welfare capitalism in the form of his account of "the colonization of the lifeworld" implicitly redirected attention away from economic questions of distribution toward the cultural grammar of the lifeworld. As I argue in this chapter, what this neglected was that the conditions of possibility for the flourishing of the lifeworld depended themselves on a particular political-economic settlement that came to be hollowed out precisely as Habermas published his social theory. In embedding Habermas's account of money and the economy in the emerging intellectual, political, and economic historiography of the late 1970s and early 1980s, this chapter thus reconstructs one dimension of the historical conditions of possibility of Habermas's mature social theory.

Only during the early 1990s did Habermas come to appreciate the profundity of the transformation. His retrospectively revealed complacency, I want to suggest, is reflected both in the focus of the *Theory of Communicative Action* (1981) on cultural disturbances and, more immediately but perhaps less self-consciously, in his acceptance of money as outside of politics. Habermas's insistence on the norm-free character of money was made plausible by the global success of a politics of monetary depoliticization and disinflation that had first been tested in the vaults of the Bundesbank before being exported around the world. As the inflationary politicization of money during the 1970s waned in memory, more or less actively repressed, Habermas's account aligned with the narrative of a Great Moderation that had once more depoliticized money. In accepting the delinguistification of money and in rendering money norm-free, Habermas accepted these changes and unwittingly immunized the new monetary constitution against critique. Anyone who wants to address the eclipse of money from liberal political theory today must engage with this latest iteration in the politics of monetary depoliticization.

5.2. Differentiation and Neutralization

Before moving to Habermas's discussion of money and economic crisis in the 1970s and 1980s, let me lay out the historical account of the modern relation between politics and the economy that forms a tacit background narrative to his thought.[17] Throughout his work, Habermas has conceived of modernity as an inescapable process of societal differentiation. In *The Structural Transformation of the Public Sphere* (1962), this was presented in the form of a neo-Marxist historical account. By the time of *The Theory of Communicative Action*, Habermas still affirmed the basic contours of this narrative theoretically but re-cast it in a Weberian and systems-theoretic manner. Since many of Habermas's intuitions about the divergence between a depoliticized economic realm and a political realm of speech originate in this historical narrative, I will reconstruct it here briefly.

In *The Structural Transformation*, Habermas was primarily concerned with charting the rise of a reason-giving public and its subsequent transformation into a culture-consuming one. But this account was embedded in a historical narrative about the changing relation between politics and the economy. In chronicling the rise and subsequent hollowing out of a modern public sphere, Habermas simultaneously provided an historical account of the constitution and differentiation of the modern state and the modern economy. As he succinctly put it in a new preface in 1990, "the structural transformation of the public sphere is embedded in the modern transformation of state and economy."[18] With the emergence of early finance and trade capitalism, Habermas

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17 This narrative of the emergence of bourgeois capitalism, the transition from liberal to late capitalism, and the relation between the political and economic this entailed was first presented historically in *The Structural Transformation of the Public Sphere* (1962) before, as we will see, being reworked system-theoretically. Jürgen Habermas, *The Structural Transformation of the Public Sphere* (Cambridge, MA: MIT Press, 1989); Jürgen Habermas, *Strukturwandel der Öffentlichkeit* (Frankfurt am Main: Suhrkamp, 1990).

18 Jürgen Habermas, "Vorwort zur Neuauflage 1990," in *Strukturwandel der Öffentlichkeit*, ed. Jürgen Habermas (Frankfurt am Main: Suhrkamp, 1990), 21.

had argued, "the elements of a new social order were taking shape."[19] Civil society came into existence "as the corollary of a depersonalized state authority. Activities and dependencies hitherto relegated to the framework of the household economy [of the ruler] emerged from this confinement into the public sphere."[20] Invoking Hannah Arendt's account of the rise of "the social" as the "private sphere of society that has become publicly relevant," Habermas drew a further distinction between the modern public sphere and the modern economy, both of which had originally been private but grew to have public relevance.[21] The genesis of the bourgeois public sphere closely mirrored that of the early capitalist economy, a point most clearly visible when Habermas used his account of capitalism as the basis for a detailed reconstruction of the development of an early-modern and enlightenment print and newspaper culture.

Most fundamentally, public sphere and commercial society could be seen as mirror images of each other insofar as both were grounded in the modern, depoliticized private sphere.[22] If the modern private realm is constitutively depoliticized, we might expect the same to be true for its two constituent parts, civil society (which included the

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19 Habermas, *Structural Transformation*, 14; Habermas, *Strukturwandel der Öffentlichkeit*, 69.

20 Habermas, *Structural Transformation*, 19; Habermas, *Strukturwandel der Öffentlichkeit*, 76.

21 Habermas, *Structural Transformation*, 19; Habermas, *Strukturwandel der Öffentlichkeit*, 76. The Arendtian reference here was to the opening argument in Hannah Arendt, *The Human Condition* (Chicago: University of Chicago Press, 1958).

22 Habermas, *Structural Transformation*, 30; Habermas, *Strukturwandel der Öffentlichkeit*, 89. In *The Philosophical Discourse of Modernity* Habermas credited Hegel with having best described these "conditions of modern, depoliticized society" and recognized the profound break with the ancient ideal of the politicized state they entailed. Jürgen Habermas, *The Philosophical Discourse of Modernity: Twelve Lectures*, trans. Frederick G. Lawrence (Cambridge MA: The MIT Press, 1985), 38.

economy) and the public sphere. And indeed Habermas frequently speaks both of the modern economy and the modern public sphere as in this sense "structurally depoliticized [*strukturell entpolitisiert*]."[23] But if economy and public sphere shared this basic trait, Habermas crucially complicated his narrative by highlighting the political significance and normative potential of the idealized bourgeois public sphere of the late eighteenth century. This did not prevent the public sphere from subsequently being partially hollowed out when the consumption of culture was substituted for critical communicative exchange.[24] But there remained a normative core and with it the critical possibility of re-politicization. Whereas Habermas wrestled the concept of a bourgeois public sphere in this sense out of Marx's hands and reconstructed its Kantian aspirations, his account of the economy remained theorized in more conventional Marxist terms. If the public sphere and economy both originated out of previously private exchanges, the public dimension they would come to acquire was on Habermas's account radically different. While the picture of the public sphere was ambivalently suspended between political emancipation and private capitalist consumption, the economy remained theorized as a depoliticized realm of purely economic exchange.

In this picture of high liberal capitalism, as Habermas presented it, there existed at least ideologically a rigorous separation between the economic order and the state. This only changed with the rise of the managed economy and the regulatory state accompanying it. In this phase of "late capitalism" since the late nineteenth and early

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23 This expression appears across Habermas's works. For an exemplary statement, see Jürgen Habermas, *Legitimation Crisis*, trans. Thomas McCarthy (Boston: Beacon Press, 1975), 37.

24 Habermas, *Structural Transformation*, 175-195; Habermas, *Strukturwandel der Öffentlichkeit*, 267-292.

twentieth century, state and economy became enmeshed and interpenetrated one another in the form of the welfare state. Habermas's evaluation of this process in *Structural Transformation* was a complex and conflicted one. On one level, he accepted that the state's administration of economic interests necessarily brought with it certain forms of depoliticization constraining the state – what Carl Schmitt called in a more visceral vein the age of neutralizations.[25] In Habermas's terms, this meant the final eclipse of the old bourgeois public sphere. Not only was communication subverted into consumption but pressure groups and organized economic interests now exercised their influence on the administrative state. In a way that is easily overlooked today, Habermas's narrative in *Structural Transformation* mapped the Schmittian displacement of the political onto an equally declinist account of the structural transformation of the public sphere. The idea and ideology of the bourgeois public had reached its highpoint at the threshold of the nineteenth century before being displaced by the rise of mass society and a culture industry based on both "cultural consumption and consumption culture."[26]

There were of course qualifications. Not only had the old public sphere with its structural dependence on the pretensions of liberal capitalism always been an ideology, but in the final two chapters of the *Structural Transformation* Habermas wove elements of an optimistic vision into his overall story of decline. He ended the book on a note of

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[25] For a succinct summary of this aspect of Habermas's thought, see Perry Anderson, "Norming Facts," in *Spectrum. From Right to Left in the World of Ideas* (New York and London: Verso, 2005), 113-128, here 114.

[26] Arnold Gehlen, "Bemerkungen zum Thema Kulturkonsum und Konsumkultur," *Tagunsgbericht des "Bundes"* (Wuppertal, 1955), as quoted in Habermas, *Structural Transformation*, 175; Habermas, *Strukturwandel der Öffentlichkeit*, 266. This *Kulturkritik* had also been mirrored in Adorno and Horkheimer's pessimistic assessment. See Adorno and Horkheimer, "Kulturindustrie," in *Dialektik der Aufklärung* (Amsterdam, 1944).

cautious assurance generated by the newly available dispersed prosperity, as well as, more darkly, the threat of Cold War nuclear annihilation that offered new possibilities of reconciling otherwise divergent interests. Habermas thus refused to join contemporary conservatives who drew from the Hegelian account of differentiated modernity a profound suspicion toward the de-differentiation of the welfare state.[27]

Though he acknowledged the conservative worry that saw the welfare state as a dangerous meddling with differentiation, Habermas tentatively concluded the book by highlighting the emancipatory potential of a renewed public sphere within the Cold War welfare state. What Schmitt and others regarded as a worrying enmeshing that threatened to undermine the autonomy of the state, Habermas saw as an emancipatory "democratization of industrial societies constituted as social-welfare states."[28] In tune with postwar hopes of affluence and inspired by Wolfgang Abendroth's progressive reading of the German Basic Law, Habermas asked whether the postwar welfare state might not be able to form the springboard for a radical social democracy based on a new critical publicity.[29]

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[27] Only during the 1970s did Habermas begin to reconceive of the basic premises of this account in a Weberian manner. The Hegelian account of differentiated modernity had not only left an indelible impression on the left Hegelians and Marx but also inspired a more conservative reception at the hands of Lorenz von Stein in the nineteenth century. It was this strand that gained enormous influence in German conservative *Staatsrechtslehre*. See Ernst Forsthoff, "Begriff und Wesen des sozialen Rechtsstaates," in *Berichte und Aussprache zu den Berichten in den Verhandlungen der Tagung der Vereinigung der Deutschen Staatsrechtslehrer zu Bonn am 15. und 16. Oktober 1953* (Berlin: Walter de Gruyter, 1954). Habermas himself offers this genealogy in Habermas, "Vorwort zur Neuauflage 1990," 21.

[28] Habermas, *Structural Transformation*, 235; Habermas, *Strukturwandel der Öffentlichkeit*, 340-341.

[29] As Habermas explained, "on the basis of the high (and ever higher) level of forces of production, industrially advanced societies have attained an expansion of social wealth

Unprecedented prosperity was in other words rapidly on its way to producing "a society of affluence" (*eine Gesellschaft im Überfluss*), as Habermas put it in echoing the title of John Kenneth Galbraith's 1958 bestseller.[30] The problem, according to Habermas in 1962, was no longer the generation of wealth or the zero-sum distributional struggle over scarce resources but instead how an affluent and growing society could best use its newly available prosperity in a fair and widely dispersed manner.[31] From the postwar welfare state, Habermas thus drew the hope that interests might sufficiently converge to inaugurate a new public sphere. Unlike the idea of the bourgeois public sphere during the period of its classically liberal development, such a renewed public sphere in an era of welfarist affluence could not simply be denounced as ideology. Instead, it "brings the dialectic of that idea, which had been degraded into an ideology, to its conclusion."[32]

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in the face of which it is not unrealistic to assume that the continuing and increasing plurality of interests may lose the antagonistic edge of competing needs to the extent that the possibility of mutual satisfaction comes within reach." Habermas, *Structural Transformation*, 234-235; Habermas, *Strukturwandel der Öffentlichkeit*, 342. See also Habermas's comment in this direction in Habermas, "Vorwort zur Neuauflage 1990," 26.

30 John Kenneth Galbraith, *The Affluent Society* (Boston and New York: Houghton Mifflin, 1958). Habermas, *Structural Transformation*, 234; Habermas, *Strukturwandel der Öffentlichkeit*, 341.

31 This materialist potential for the convergence of interests was compounded by an altogether more sinister aspect. Confronted with the nuclear dangers of an increasingly hot Cold War (this was the time of the Cuban Missile Crisis), Habermas argued that the "potential for self-annihilation on a global scale has called forth risks so total that in relation to them divergent interests can be relativized without difficulty. The as yet unconquered state of nature in international relations has become so threatening for everybody that its specific negation articulates the universal interest with great precision." Habermas, *Structural Transformation*, 235; Habermas, *Strukturwandel der Öffentlichkeit*, 341.

32 Habermas, *Structural Transformation*, 235; Habermas, *Strukturwandel der Öffentlichkeit*, 342. It is easy to forget the extent to which postwar economic growth had become taken-for-granted. Across the European and North American social sciences there was a widely shared belief in the "almost automatic" (Myrdal) availability of

While the late capitalist welfare state thus crucially complicated Habermas's account of a modern differentiation between politics and economics, key aspects of the narrative nonetheless remained in place. In particular, although postwar welfarism had extended the state once more into economic life, the modern capitalist economy remained in important ways neutralized and apolitical. As long as the means of production were in private hands and the price mechanism remained in place, the economy operated on Habermas's view according to its own logic that not only crucially differed from the normativity of the public sphere but remained shielded against politics more generally.

Postwar prosperity was administered by national welfare states acting in the shadow of American hegemony and an international monetary system that mirrored this constellation: in the Bretton Woods system member currencies were tied to the US dollar, which was in turn linked to gold. Domestically, Bretton Woods thus meant that monetary policy had only very limited autonomy. There was some room for maneuver with capital mobility still low but domestic monetary policy had nowhere near the same political significance it would acquire in the 1970s and 1980s. During the postwar decades it was precisely the fact that Bretton Woods kept domestic monetary policy in check while successfully stabilizing international monetary coordination that made it possible for political theorists at the time to neglect money as a political institution that would have to be actively managed. John Rawls, for example, embarked in this context of widely-dispersed postwar affluence on his search for a theory of justice as fairness.[33] As is well

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economic growth at rates consistently above five percent. Gunnar Myrdal, *Beyond the Welfare State: Economic Planning and its International Implications* (New Haven: Yale University Press, 1960). Delivered as the 1958 Storrs Lectures at Yale Law School.

33 Rawls's philosophical framework – despite numerous subsequent revisions – was in place by the early 1960s. See John Rawls, "Justice as Fairness," *The Philosophical*

known, Rawls remained self-consciously agnostic about the precise institutional form by which his two principles of justice were to be satisfied.[34] One of the consequences of this agnosticism was that money could be left largely undertheorized. But the Bretton Woods monetary order was also, less self-consciously, simply taken for granted. Rawls's philosophical framing relied in this sense implicitly on the political and monetary conditions of statist welfarism and economic growth within the Bretton Woods system while at the same time obscuring the political nature of these preconditions that had emerged out of the struggles of the 1930s and 1940s.

5.3. Crisis after Bretton Woods

In the course of the 1960s first cracks began to appear in the supposedly self-perpetuating wealth generation machine of the postwar welfare state. The Bretton Woods system, which had only become fully operational by 1958, was already experiencing tensions. Efforts during the late 1960s to reduce the stress by belatedly issuing an international reserve currency of kind in the form of the International Monetary Fund's Special Drawing Rights (SDRs) failed to resolve the tensions. By 1971 the United States

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Review 67, no. 2 (Apr., 1958). Rawls, "Distributive Justice (Summer 1959)." John Rawls Papers, Harvard University Archives, HUM 48, Box 35, Folder 8. John Rawls, *A Theory of Justice* (Cambridge MA: The Belknap Press of Harvard University Press, 1971).

[34] Whether this occurred through a capitalist welfare state, liberal socialism, or a property-owning democracy (his personal favorite), was a question not only outside of the formal purview of his theory but also in a profound way irrelevant. All that counted was that the political freedoms of the first principle of justice were respected and the distributive demands of the second principle heeded. Rawls only stepped outside of his self-prescribed agnosticism when emphasizing the exclusive ability of markets to satisfy the first part of the second principle of justice: the right to free choice of occupation under conditions of fair equality of opportunity. Rawls, *A Theory of Justice*, 276.

trade account turned negative for the first time in the twentieth century.[35] President Richard Nixon, eager to take an aggressive stance on domestic stimulus (he regarded inaction by the Federal Reserve in 1960 as having cost him his first presidential bid against John F. Kennedy),[36] surprised his Western allies by unilaterally closing the gold window and decoupling the dollar from gold.

In the face of burdensome demands imposed by the Vietnam War and the prospects of increasingly difficult tradeoffs between domestic policy and adherence to the constraints of an international monetary system, the Nixon administration substituted a newly ebullient vision of unilateral leadership for perceptions that America's hegemonic status came with sacrifices.[37] "The dollar might be our currency," Nixon's treasury secretary John Connally famously quipped to the rest of the world, "but it is your problem."[38] In the hope of strengthening his re-election campaign, Nixon ushered in a monetary revolution that marked the end of the postwar certainties. As the US withdrew its support, Bretton Woods gradually collapsed. By 1973, most countries had given up their currency peg to the US dollar after going through a phase of pronounced crises as their commitment to the dollar was repeatedly tested and came to consume billions in

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35 For a lucid commentary that combines proximity to the drama of the events with a clear-sighted mapping of it, see Susan Strange, "The Dollar Crisis," *International Affairs (Royal Institute of International Affairs)* 48, no. 02 (Apr., 1972), 191-216, here 202.

36 Douglas Brinkley and Luke A. Nichter, eds., *The Nixon Tapes, 1971-1972* (New York: Houghton Mifflin Harcourt, 2014), 231-238.

37 See on this Daniel J. Sargent, *A Superpower Transformed. The Remaking of American Foreign Relations in the 1970s* (Oxford: Oxford University Press, 2015). The policy dilemma confronting a country whose currency also served as the global reserve currency had been formalized during the early 1960s by the Belgian-American Robert Triffin.

38 As quoted in Harold James, *International Monetary Cooperation Since Bretton Woods* (Oxford: Oxford University Press, 1996), 210.

foreign exchange reserves.[39] The world meanwhile slid further into crisis. Whereas average annual GDP growth between 1950 and 1973 had consistently approximated five percent across Western Europe and the United States (and close to ten percent in Japan), growth came to an abrupt halt in the early 1970s. By 1974, industrialized economies grew a mere one percent. In 1975, they contracted.[40] Unemployment, virtually unheard of throughout the OECD during the 1960s, was back. At the same time, inflation reached levels not witnessed during peacetime since the interwar years. By 1974 inflation stood at more than ten percent in many developed economies; in Britain, it reached twenty-five percent; in India, thirty percent; in Chile, it took on hyperinflationary levels.[41]

The collapse of the certainties of the postwar economic order coincided precisely with the publication of Rawls's magnum opus, itself in the works for nearly two decades. Only months after Rawls's book was published in early 1971 Nixon suspended the dollar's convertibility. In a constellation that would not have failed to amuse Hegel, the moment in which thought captured reality coincided with that reality vanishing. When Rawls wrote the book he had described it as an attempt to give a philosophical foundation to the existing postwar welfare state. It was in this sense a Hegelian attempt of revealing the rational in the real – not so much a call for radical change but a document of philosophical approval for the contours of existing institutions and their continuing improvement. With the welfarist statism it had sought to defend moving into crisis, the book began to appear to its first generation of readers in an altogether different light.

39 James, *Making the European Monetary Union*, 108.

40 Angus Maddison, *The World Economy: Millennial Statistics*, available online: http://www.theworldeconomy.org (accessed: March 28, 2015).

41 Daniel J. Sargent, "North/South: The United States Responds to the New International Economic Order," *Humanity* 6, no. 1 (Spring 2015), 201-16, 203.

Soon it was praised as a daring exercise in Kantian idealism that strove to find the real in the rational.[42]

As growth slowed and the Bretton Woods system imploded, Habermas's welfarist utopia also came to a grinding halt. The welfare state continued to assert its authority but it now had to confront levels of peacetime inflation and economic crisis not seen since the interwar years. Habermas's reflections in *Legitimation Crisis* (1973) originate in this liminal space of uncertainty in which the old conceptual tools of postwar welfarism ran up against new forms of economic and political crisis.[43] Despite the economic changes, Habermas remained wedded to an account of capitalist development based on a narrative of differentiation. As he put it in 1975, "*internally* the modern state can be understood as the result of the differentiation of an economic system which regulates the production process through the market – that is, in a decentralized and apolitical [*unpolitisch*] manner."[44] The state guarantees property rights, infrastructure, and "the monetary

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42 As Rawls later remarked, the book's reception surprised him since almost the entire debate focused on questions of distribution whereas few engaged with what Rawls had considered his central contribution, namely his account of obligation or stability. John Rawls, *Political Liberalism* (New York: Columbia University Press, 1993), xv-xvii. As quoted in Forrester, "War and the Origins of International Ethics in American Political Philosophy 1960-1975," 794. See also Ian Shapiro, "Against Impartiality," *Journal of Politics*, (forthcoming).

43 Jürgen Habermas, *Legitimationsprobleme im Spätkapitalismus* (Frankfurt am Main: Suhrkamp, 1973); Jürgen Habermas, Legitimation Crisis, trans. Thomas McCarthy (Boston: Beacon Press, 1975).

44 Jürgen Habermas, "Legitimation Problems in the Modern State," in *Communication and the Evolution of Society, transl. and with an Introduction by Thomas McCarthy* (Boston: Beacon Press, 1979), 178-205, here: 189; Jürgen Habermas, "Legitimationsprobleme im modernen Staat," in *Zur Rekonstruktion des Historischen Materialismus* (Frankfurt am Main: Suhrkamp, 1976), 271-303, here: 282.

mechanism."[45] But these institutions were for Habermas economic in nature and therefore in an important sense beyond politics. Freed from ethical norms and an orientation toward use value, the economic process was "apolitical." The flipside of the modern state's increased functional autonomy in administrative questions was a stark constraint placed upon its ability to openly intervene in economic matters.[46]

As Habermas had explained in *The Structural Transformation*, the depoliticization of the economic realm was a constitutive feature of the modern state. In *Legitimation Crisis* Habermas began to translate this historical differentiation narrative into the language of systems theory. "The modern rational state," Habermas explained, is "the complementary arrangement to self-regulative market commerce. … Only the relative uncoupling of the economic system from the political permits a sphere to arise in bourgeois society that is free from the traditional ties and given over to the strategic-utilitarian action orientations of market participants."[47] Despite a number of important qualifications, Habermas thus remained remarkably loyal to the basic premises of a narrative of capitalist modernity as differentiation and depoliticization.[48]

45 "In other words, the state develops and guarantees bourgeois civil law, the monetary mechanism, and certain infrastructures – overall the prerequisites for the continued existence of a depoliticized economic process set free from moral norms and orientations to use value." Habermas, "Legitimation Problems in the Modern State," 189; Habermas, "Legitimationsprobleme im modernen Staat," 282.

46 Habermas, "Legitimation Problems in the Modern State," 189; Habermas, "Legitimationsprobleme im modernen Staat," 282. Habermas drew on a neo-Marxist account of the welfare state for this analysis, in particular the work of Claus Offe. I will return to this below.

47 Habermas, *Legitimationsprobleme im Spätkapitalismus*, 36-37; Habermas, *Legitimation Crisis*, 21. Habermas here referenced Max Weber and Niklas Luhmann.

48 As Habermas summarized in an interview from 1989, "I think Marx described societal modernization fundamentally correctly, namely as consisting on the one hand of an economic system that is steered by markets and was differentiated out of the prior

Alongside this account of differentiation Habermas now placed even greater emphasis on the need for state intervention. The early 1970s initially fitted well with this conception of late capitalism. What had originally been a mere guarantee of the preconditions of the market in the form of infrastructure and a legal system of enforceable contracts had become a sprawling web of state institutions governing the domestic and world economy, correcting its crisis tendencies, and compensating for its unequal consequences. According to Habermas in 1975, the state was now widely expected to guarantee three aspects of economic life: insure stable growth, provide for the satisfaction of collective needs, and correct for resulting patterns of social inequality.[49] Given these expectations, "threats to legitimacy can be averted only if the state can credibly present itself as a social welfare state which intercepts the dysfunctional side-effects of the economic process."[50] The crisis of the 1970s notwithstanding, the state bore responsibility for making up for the deficiencies of the economic process.

But how could Habermas point to the state's far-ranging interventions in economic life and at the same time retain a differentiation narrative of depoliticization? How could the reality of the welfare state be squared with his insistence on the

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order of political rule, and on the other hand consisting of the establishment of an economically unproductive state apparatus that is dependent on apolitically accrued income for its taxes but at the same time remains functionally related to this economic system." Jürgen Habermas, "Interview mit Hans Peter Krüger [1989]," in Jürgen Habermas, *Die Nachholende Revolution* (Frankfurt am Main: Suhrkamp, 1990), 89.

49 Habermas, "Legitimation Problems in the Modern State," 194; Habermas, "Legitimationsprobleme im modernen Staat," 288.

50 Habermas, "Legitimation Problems in the Modern State," 194; Habermas, "Legitimationsprobleme im modernen Staat," 287-288. In the German original, Habermas invoked Ernst-Wolfgang Böckenförde to refer to the idea that the state had to step in wherever the economic process failed. At the time, Habermas (and Böckenförde) still confidently assumed that the state had the means and will at its disposal to perform all three tasks.

depoliticized nature of the modern economy? According to Habermas, the two positions were compatible because of practical and ideological limits to the state's ability to interfere in the economic process. The welfare state was constrained in its interventions insofar as it had to maintain at least the *appearance* of a depoliticized economic realm. This tension was a crucial source of the legitimation crisis he detected. Drawing heavily on the work of his former Frankfurt assistant Claus Offe, Habermas explained that the late-capitalist state was supposed to perform its economic tasks without violating the quasi-natural appearance of the capitalist economy.[51]

> The problem does not lie in the fact that such things are expected of the state and that the state has to take them up in a programmatic way. The conflict – in which, with Claus Offe, we can see a source of legitimation problems – lies rather in the fact that the state is supposed to perform all these tasks without violating the functional conditions of a capitalist economy, and this means without violating the complementarity relations that exclude the state from the economic system and, at the same time, also make it dependent on the dynamic of the economy.[52]

As Habermas argued in the rest of the remarkable passage, the ability of the late-capitalist welfare state to guarantee egalitarian affluence "presupposes of course an economic system relatively free of disturbances."[53] The late capitalist welfare state, according to Offe and Habermas, increasingly rested on its ability to maintain an illusion.

But why, we may ask, does the expectation of economic certainties presuppose an economic system free of disturbances? Did Habermas imply that the economic system

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[51] Habermas cited Claus Offe, *Strukturprobleme des kapitalistischen Staates* (Frankfurt am Main: Suhrkamp, 1972) and a recent manuscript of Offe's. Claus Offe and V. Ronge, "Thesen zur Begründung des Konzepts des kapitalistischen Staates," unpubl. MS (Starnberg, 1975). Habermas, "Legitimation Problems in the Modern State," 195. Habermas, "Legitimationsprobleme im modernen Staat," 288.

[52] Habermas, "Legitimation Problems in the Modern State," 194-195; Habermas, "Legitimationsprobleme im modernen Staat," 288.

[53] Habermas, "Legitimation Problems in the Modern State," 194; Habermas, "Legitimationsprobleme im modernen Staat," 287-288.

did in fact have to operate "free of disturbances"? Or was this a necessary illusion for motivational reasons? Habermas's response to the question owed much to Offe's *Structural Problems of the Capitalist State* (1972) in which Offe had begun to question the teleological nature of the welfare state and cast doubt on its optimistic assumptions.[54] On Offe's account, the welfare state was in a profound sense "contradictory" in as far as it tended to undermine the conditions of its own preservation.[55] "What the state is required to do becomes evidently impossible to accomplish unless either the private character of accumulation or the liberal democratic character of the polity are suspended."[56] This suggested that an economic system free of disturbances was profoundly illusionary and nonetheless, according to Offe, in some sense necessary as a regulatory presupposition that underpinned its work ethic and freed the political system from overburdening. Faced with the twin tasks of steering the economy and simultaneously obfuscating the steering operation, the welfare state was caught in an impasse that expressed itself in the latent possibility of legitimation crises.

Offe's account nicely dovetailed in this regard with Habermas's earlier differentiation narrative. Though Habermas always stressed the dependency of late capitalism on state intervention, in action-theoretic terms he also occasionally described the economy with a nod to Niklas Luhmann as a "self-steering system." As suggested above, often this point was presented in a weaker form to insist that *the appearance* of undistorted market outcomes must be retained. At other times, however, Habermas was

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54 Offe, *Strukturprobleme des kapitalistischen Staates* (Frankfurt am Main: Suhrkamp, 1971).

55 Claus Offe, *Contradictions of the Welfare State*, ed. John Keane (London: Hutchinson, 1984), 132, 262.

56 Offe, *Contradictions of the Welfare State*, 244.

clear that there really were structural limits to the state's involvement in economic matters. As he put it in the 1990 preface to a reprint of the *Structural Transformation*, the bankruptcy of state socialism in the East had once more shown that a "modern economic system steered by markets cannot be simply switched over from money to administrative power or democratic will formation without endangering its efficient performance [*Leistungsfähigkeit*]."[57] "Furthermore," he added, "our experiences with a welfare state that has reached its limits has sensitized us to phenomena of bureaucratization and juridification. These pathological effects result from state intervention in areas of action resistant to legal-administrative regulation."[58]

Habermas's account of the welfare state in late capitalism was consequently an intentionally contradictory one. On the one hand, it emphasized the structural need for the state's role in guaranteeing not just the preconditions but the daily functioning of the economy. On the other hand, Habermas insisted on the importance of at least an appearance of naturalness in the economic realm, even under late capitalism. Without this deception, demands for legitimation of the state's actions would suddenly increase exponentially. As Habermas explained in early 1973, "with the appearance of functional weaknesses in the market and dysfunctional side effects of the steering mechanism, the basic bourgeois ideology of fair exchange collapses. Re-coupling the economic system to the political – which in a way repoliticizes the relations of production – creates an increased need for legitimation."[59] While the modern administrative welfare state had

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57 Habermas, "Vorwort zur Neuauflage 1990," 27.

58 Habermas, "Vorwort zur Neuauflage 1990," 27.

59 Habermas, *Legitimationsprobleme im Spätkapitalismus*, 54; Habermas, *Legitimation Crisis*, 36.

rightly been inserted into economic relations, until the early 1970s the scale of its interventions had been possible to hide behind depoliticizing theories of expertise (hence Habermas's perceptive qualifier "in a way"). These theories, Habermas explained, "today have a function similar to that of the classical doctrine of political economy."[60] Where classical political economy had in an earlier phase provided the necessary doctrines of the "naturalness" of economic relations, in late capitalism technocratic theories of expertise had come to insulate the state from political pressures and helped to maintain a deceptive appearance of quasi-natural economic relations. It was this crucial illusion that came under pressure with the escalating inflationary crisis of the 1970s.

5.4. Contradictions of Capitalism

As growth faltered, prices kept rising. For eight consecutive years from 1973 till 1981 inflation was, according to US opinion polls, the single most important problem facing the country.[61] As one analyst of American public opinion summarized, "for the public today, inflation has the kind of dominance that no other issue has had since World War II."[62] A political rhetoric of martial metaphors took such analogies to heart, more often than not further stoking an underlying sentiment of crisis. When President Ford declared inflation "our public enemy number one" in 1974, he compared it to a "well-

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60 Habermas, *Legitimationsprobleme im Spätkapitalismus*, 56; Habermas, *Legitimation Crisis*, 37.

61 In 1982 and 1983, inflation was only beaten by high unemployment. See Robert J. Samuelson, *The Great Inflation and Its Aftermath. The Past and Future of American Affluence* (New York: Random House, 2008), 23.

62 Daniel Yankelovich, "The Noneconomic Side of Inflation," in *Inflation and National Survival*, ed. Clarence C. Walton (New York: Academy of Political Science, 1979), 20. As quoted in Samuelson, *The Great Inflation and Its Aftermath*, 20.

armed wartime enemy."[63] Even if such metaphors appeared overblown, no one could deny that inflation openly politicized the economy. At the same time as inflation eroded the natural appearance of economic relations and vastly raised the stakes of wage bargaining, the world economy also underwent a process of politicization. In reaction to the Yom Kippur War, the Organization of Arab Petroleum Exporting Countries (OPEC) imposed in October 1973 an oil embargo that triggered the first oil price shock. For the first time in the modern history of the West an essential raw material had entirely escaped its control. Alongside the OPEC embargo a number of recently decolonized developing countries formulated their vision of a New International Economic Order (NIEO) of radical debt relief and a reshaping of global economic relations that was formally adopted by the United Nations General Assembly in May 1974.[64]

This politicization of economic demands through the monetary upheavals after the end of Bretton Woods tore down the apolitical technocratic facade of the late capitalist economy. The state's steering interventions that had previously been obscured by their very success and invocations of technical expertise became increasingly visible and thereby, in Seyla Benhabib's words, "demystified."[65] If the invisible hand of the market

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63 Gerald R. Ford, "Address to a Joint Session of the Congress on the Economy (October 8, 1974)," in *Public Papers of the Presidents of the United States. Administration of Gerald R. Ford* (GPO 1975), 228-238.

64 Adom Getachew, *The Rise and Fall of Self-Determination: Towards a History of Anti-Colonial World-Making* (Ph.D. Dissertation, Yale University, 2015). Mark Mazower, *Governing the World. The History of an Idea* (London and New York: Penguin, 2012).

65 Seyla Benhabib, *Critique, Norm, and Utopia. A Study of the Foundations of Critical Theory* (New York: Columbia University Press, 1986), 233. As Benhabib puts it, "the repoliticization of such relations through state-interventionist and reformist measures generates an additional dynamic which may exacerbate the legitimation crisis of the state." (234)

had in the postwar period been replaced by what Albert Hirschman once dubbed the hiding hand of the state, the fumbling fingers of technocracy had now been revealed as not only visible but all too clumsy.[66] As Habermas recognized, it was the demystification this implied that burdened the state with additional demands for legitimating its interventionist policies and the distributive outcomes they entailed. Legitimation crises originated in this critically increased demand for public justification of state actions as economic relations became openly re-politicized under the crisis conditions of the 1970s. In times of economic crisis it was no longer possible to conceal the functional relations between the state and the capitalist economy. Ironically, state intervention in the economy became impossible to hide precisely because it no longer worked. When President Carter addressed the second round of economic turmoil in his first year in office in 1977, he had to admit with a striking note of modesty: "I do not have all the answers. Nobody does."[67] None of the technocratic proposals, Carter conceded, had worked.

In his analysis of the resulting political pressures Habermas's crisis theory here converged with contemporary anxieties about democratic "ungovernability." As the 1975 report of the Trilateral Commission concluded, "[t]he demands on democratic governments grow, while the capacity of democratic government stagnates. This, it would appear, is the central dilemma of the governability of democracy which has

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66 Albert O. Hirschman, "The Principle of the Hiding Hand," *Public Interest*, no. 6 (Winter 1967), 10-23.

67 Jimmy Carter, "Anti-Inflation Program. Address to the Nation. October 24, 1978," *Public Papers of the Presidents of the United States: Administration of Jimmy Carter, June 30-December 31, 1978* (Washington DC: National Archives, 1979), 1840.

manifested itself in Europe, North American, and Japan in the 1970s."[68] These worries concerning the compatibility of capitalism with the democratic welfare state were widely shared at the time, with opposing ideological conclusions on offer. One of its most probing, subtle, and influential accounts was presented by Daniel Bell in his *The Cultural Contradictions of Capitalism* (1976), a book Habermas has referenced repeatedly as a clear-eyed inspiration for his own thought.[69]

In the postwar period, Bell explained, economic growth had become a "secular religion" that provided industrial societies with a potent "political solvent."[70] The availability of widely dispersed affluence could disguise that more and more economic outcomes were directly affected by the administrative welfare state. As Bell put it, "we have begun to center the crucial decisions about the economy and the society in the political cockpit, rather than in the diffused, aggregated market."[71] While growth had helped to stabilize and legitimate technocratic economic government during the postwar period, the experience of economic crisis and inflation during the 1970s meant that

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68 The report traced the crisis to an excess of democracy. Michel J. Crozier, Samuel P. Huntington, and Joji Watanuki, *The Crisis of Democracy: Report on the Governability of Democracies to the Trilateral Commission* (New York: NYU Press, 1975), 9.

69 See, for example, Jürgen Habermas, "Ideologies and Society in the Post-war World: interview with Gad Freudenthal, Jerusalem, 16 December 1977," Peter Dews (eds.), *Autonomy and Solidarity*, 51. Most recently, Jürgen Habermas, "Demokratie oder Kapitalismus? Vom Elend der nationalstaatlichen Fragmentierung in einer kapitalistisch integrierten Weltgesellschaft," *Blätter für deutsche und internationale Politik* 5 (2013), 59-70, 59-70, here: 59. Bell's book became "one of the mid-1970s' most important books of social theory." Daniel T. Rodgers, *Age of Fracture* (Cambridge MA: Harvard University Press, 2011), 75.

70 Bell, *The Cultural Contradictions of Capitalism*, 237.

71 Bell, *The Cultural Contradictions of Capitalism*, 24.

governmental interventions and distributive political decisions had become increasingly "visible" and thereby contestable. "In effect," Bell explained,

> decision-making has become 'politicalized' and subject to all the multiple direct pressures of political decision making. … When one 'burdens' the polity with more and more political issues, when housing, health, education, and the like become politicalized, strains are compounded. … [I]n the coming years there will be more and more group conflicts in the society.[72]

In the face of a faltering technocratic ability to produce prosperity, citizens no longer directed their frustrations about hardship at the anonymous naturalized market but at the administrative state that had failed them. Now they knew whom to blame.

As the inflation of the 1970s had revealed, Bell pointed out, the potent combination of rising expectations and democratic politics had come to bind states, preventing them from either reducing governmental expenditure or cutting wages by way of "traditional modes of restraint or 'discipline' (in the archaic use of the term)."[73] Inflation emerged on this account as the inevitable price a polity had to pay for social peace. "[I]t seems unlikely," Bell concluded, "that any democratic political economy can abolish its inflation without disastrous political consequences."[74] The only way out without wrecking either the middle class or the working class would be a combination of strong wage-price controls, a redistributive incomes policy to adjust resulting inequities, and strict governmental regulation of investment to deter evasions. In short, the only way out of the dilemma without recourse to a class war, according to Bell, meant that government "will inevitably [have to] extend its power in the capital markets."[75] The

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72 Bell, *The Cultural Contradictions of Capitalism*, 197.

73 Bell, *The Cultural Contradictions of Capitalism*, 239.

74 Bell, *The Cultural Contradictions of Capitalism*, 238.

75 Bell, *The Cultural Contradictions of Capitalism*, 240, 242.

resulting interventions would inevitably be based on contentious distributive judgments certain to provoke resentment from the respective losers, not to mention their lobby groups. The political system would struggle under the weight of these conflicting demands.

If this prediction of politically-challenging distributive decisions was dire, Bell was at the same time adamant that there was no way around it. Democratic capitalist politics after the postwar boom was now stuck in "a peculiar contradiction" that created an inescapable dilemma.[76] The only possible solution, he argued, consisted in squarely confronting the dilemma as a supremely political problem. Difficult distributive decisions could only avoid jeopardizing the legitimacy of the state if they were accompanied by the formulation of a public political philosophy that accepted the economy as a politically contested arena to be publically managed (Bell dubbed this "the public household") and developed widely accepted public norms of how to fairly share economic pain without stirring up resentment against the political system.[77] Bell agreed at this point with Habermas – "the leading Marxist scholar today" – that legitimacy was the core concept to be addressed since it "goes to the root values of a society."[78]

If Bell and Habermas agreed about the pressures of legitimation, neither envisaged what was to come. But their analysis had in fact correctly highlighted all the

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[76] Bell, *The Cultural Contradictions of Capitalism*, 243.

[77] Bell, *The Cultural Contradictions of Capitalism*, 220-282. For a contemporary call for a public philosophy of equality in sharing the burden of dis-inflationary austerity, see Michael Walzer, "Socialism and Self-Restraint: The Moral Equivalent of War Requires the Moral Equivalent of Wartime Equality," *New Republic* 181 (July 7, 1979), 16-19. Reprinted as Michael Walzer, "Socialism and Self-Restraint," in *Radical Principles: Reflections of an Unreconstructed Democrat* (New York: Basic Books, 1980), 291-303.

[78] Bell, *The Cultural Contradictions of Capitalism*, 249n24.

elements that would come to motivate the neoliberal turn toward depoliticization. As Bell put it, where the administrative state "concentrates decisions and makes the consequences visible" and exposes the legitimacy of the state, "the virtue of the market is that it disperses responsibility for decisions and effects."[79] This did not mean that he endorsed a turn to the market but he was only too aware of its political attraction. Habermas found himself in a similar position. Though he insisted that any return to the unregulated market of liberal capitalism was a fantasy, by the late 1970s he had grown more and more skeptical not only about the feasibility but also the desirability of economic politicization and de-differentiation. "I wonder," he reflected in an interview from 1978,

> if we should not preserve part of today's complexity within the economic system, limiting the discursive formation of the collective will precisely to the decisive and central structures of political power: that is, apart from the labour process as such, to the few but continuously made fundamental decisions which will determine the overall structure of social production and, naturally, of distribution.[80]

This was an empirical question, he emphasized, that could not be answered abstractly but only through "experimental practice."[81]

As early as 1975, in a talk given at the annual meeting of the German Political Science Association in Duisburg, Habermas had tentatively suggested one such experimental solution to the political dilemma of late capitalism. While citizens held the

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79 Bell, *The Cultural Contradictions of Capitalism*, 235.

80 The interview was conducted by Angelo Bolaffi at the Max Planck Institute in Starnberg and first appeared in *Rinascita*, the weekly journal of the Italian Communist Party (PCI), in issues nos. 30 (July 28, 1978) and 31 (August 4, 1978). Two different English translations appeared as Jürgen Habermas, "Conservatism and Capitalist Crisis," *New Left Review* 115 (May-June 1979), 73-84; and Jürgen Habermas, "Angelo Bolaffi: An Interview with Jürgen Habermas," *Telos*, no. 39 (Spring 1979), 163-172.

81 Habermas, "Conservatism and Capitalist Crisis," 81; Habermas, "Bolaffi: Interview with Habermas," 169.

state responsible for economic crises and expected it to resolve them, even the late capitalist state "cannot deploy legitimate power … to push through binding decisions, but only to manipulate the decisions of others, whose private autonomy may not be violated. *Indirect control is the answer to the dilemma.*"[82] To avoid a further escalation of legitimation crisis, economic control was necessary but could not be exercised directly. Instead, it had to take the form of "indirect inducements" that rendered the state's guiding hand invisible again.[83]

As Habermas spoke in Duisburg an altogether different Frankfurt School had arrived at a remarkably similar conclusion. Ever since the suspension of the dollar peg in March 1973, the central bankers at the Bundesbank in Frankfurt had been busy developing just such indirect steering by stealth. The float of the Deutschmark had liberated their hands that had previously been tied under the Bretton Woods system. Now West Germany was free to use the indirect monetary steering forces to embark on its disinflationary monetarist *Sonderweg*. Not incidentally, when the Bundesbank launched this grab for power by introducing its new policy of monetary targeting in December 1974, it did so in a self-conscious attempt at disavowing its political nature. The words it

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[82] Habermas, "Legitimation Problems in the Modern State," 195-196. Habermas, "Legitimationsprobleme im modernen Staat," 289. A short version of the text appeared in *Merkur* in January 1976, the full version was published in Jürgen Habermas, *Zur Rekonstruktion des Historischen Materialismus* (Frankfurt am Main: Suhrkamp, 1976), a partial translation of which appeared as Jürgen Habermas, *Communication and the Evolution of Society*, trans. Thomas McCarthy (Boston: Beacon Press, 1979).

[83] Habermas, "Conservatism and Capitalist Crisis," 80; Habermas, "Bolaffi: Interview with Habermas," 168.

employed in this context still echo down to our present: "There is no alternative," the Bundesbank declared in its 1974 Annual Report.[84]

Soon, the West German ordoliberal monetary experiment of reigning in the inflation by harsh policies of indirect steering attracted attention abroad. In particular French President Valéry Giscard d'Estaing (in office from 1974 until 1981) and his Prime Minister Raymond Barre (in office from 1976 until 1981) made no secret of their admiration for the West German depoliticization of the economy and hoped to import some of its benefits in the form of a joint monetary system.[85] Indeed, by the late 1970s, French political discourse was so saturated with discussions of German ordoliberal economic policy that Michel Foucault dedicated a large part of his 1979 lecture course at the Collège de France to it.[86] The topic of the lectures has often been seen as either quixotic or, more recently, prophetic. It could in fact have scarcely been more topical. At least since 1976 much of Parisian political punditry had been obsessively following West German economic policy, especially the Bundesbank, and at several points in the lecture series Foucault explicitly referenced the contemporary relevance of his subject matter

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84 *Report of the Deutsche Bundesbank for the Year 1974*, 16. Available online: http://www.bundesbank.de/Redaktion/EN/Downloads/Publications/Annual_Report/1974_annual_report.pdf. Margaret Thatcher subsequently popularized "There Is No Alternative." On its function as a political slogan, see Jonathan Swarts, *Constructing Neoliberalism: Economic Transformation in Anglo-American Democracies* (Toronto: University of Toronto Press, 2013).

85 James, *Making the European Monetary Union*, 62-88.

86 Michel Foucault, *The Birth of Biopolitics: Lectures at the Collège de France, 1978-79* (Basingstoke and New York: Palgrave Macmillan, 2008), 75-158. For the French transcript see Michel Foucault, *Naissance de la biopolitique. 1978-1979* (Paris: Seuil, 2004), 77-164.

with nods to Barre.[87] Drawing a suggestive arc to Fichte, whose politicized theory of fiat money I discussed in Chapter 3, Foucault explained that the Bundesbank's ordoliberalism was part of the very DNA of the West German state, a state whose founding had after all been preceded by that of its currency.[88] "In contemporary Germany," Foucault summarized pointedly,

> we have what we can say is a radically economic state, taking the word "radically" in the strict sense, that is to say, its root is precisely economic. As you know, Fichte – and this is generally all that is known about Fichte – spoke of a closed commercial state. I will have to come back to this a bit later. I will just say, making a somewhat artificial symmetry, that we have here the opposite of a closed commercial state. We have a state-forming commercial opening. Is this the first example in history of a radically economic state?[89]

These observations, though exaggerated, were not implausible as the Bundesbank took the lead in the international monetarist conquest of inflation and the associated depoliticization of money.[90]

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87 Foucault, *The Birth of Biopolitics*, 194, 207, 209n14. For the ordoliberal principles behind Barre's anti-inflationism, see Raymond Barre, *Une politique pour l'Avenir* (Paris: Plon, 1981), 24-27.

88 On the West German monetary reform see Charles P. Kindleberger and F. Taylor Ostrander, "The 1948 Monetary Reform in Western Germany," in *International Financial History in the Twentieth Century. System and Anarchy*, ed. Marc Flandreau, Carl-Ludwig Holtfrerich, and Harold James (Cambridge: Cambridge University Press, 2003), 169-195.

89 Foucault, *The Birth of Biopolitics*, 86. Foucault never returned to Fichte.

90 For an account of the Franco-German and transatlantic politics of anti-inflationism, see Eich and Tooze, "The Great Inflation," 185-191. As Habermas explained six months prior to Foucault's lectures, "in West Germany, the management of economic policy has been staged for the public in a very effective way. The immediate results of this staging have been on the one hand the processes of intimidation and discipline … and on the other hand a possibly reinforced cynicism towards the way the system redistributes its costs." Anyone who watched the news in West Germany could, according to Habermas, witness an economic policy that imposed discipline against workers while deflecting blame for doing so. Habermas, "Conservatism and Capitalist Crisis," 80. Habermas, "Bolaffi: Interview with Habermas," 168.

Initially, as West German economic relations were slowly but surely depoliticized through the disinflationary monetarism of the Bundesbank, Habermas perceived these developments not as threatening the welfare state but as confirming its resilient ability to master economic crises through ever new claims to expertise. From this perspective, economic crises appeared to have been essentially surmounted. The somewhat complacent affirmation of the seemingly unalterable structural necessity of the welfare state that attended this assessment formed the background to Habermas's shift of attention, in the *Theory of Communicative Action* (1981), from questions of economic crisis and redistribution to questions of cultural crisis in the lifeworld. Asked in 1978 whether his assessment of legitimation crisis had been altered by the economic and political events of the previous five years, Habermas chose a line of response that betrayed his faith in the technocratic abilities of the administrative state. "In the last few years," he explained, "it has become clear that the origins of the crisis still lie in the economic system of capitalism, but that the welfare state no longer allows the crisis to explode in an immediately economic form. Instead, when there is a recession and large-scale unemployment, the symptoms of the crisis are displaced into strains within the cultural and social order."[91]

Instead of economic crisis, Habermas observed in West Germany an accommodating cultural turn to neo-conservatism that expressed itself through a reinforced work ethic accompanied by an embrace of various forms of cultural traditionalism. Though voicing his political dismay at these developments, Habermas

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91 Habermas, "Conservatism and Capitalist Crisis," 74; Habermas, "Bolaffi: Interview with Habermas," 163. This was however a distinctly West-German view of the 1970s, as the Bundesbank's monetarism had largely succeeded in containing inflation while the costs of doing so remained largely invisible and little understood.

sought to make sense of them sociologically. "I think that we have to take seriously that aspect of the propaganda of the Right which deals with real needs and offers a conservative solution to real problems."[92] The neo-conservative diagnosis might have been faulty but the underlying problem was real. The result – which Habermas would later describe as the "colonization of the lifeworld" – was the following one:

> In the course of capitalist development and of a politically uncontrolled process of accumulation, the partial administrative and economic rationality that is functional to such an economic system gradually penetrates and restructures ever broader spheres of life, which should on their own be evolving completely different forms of rationality—that is, practical and moral agencies, democratic and participatory processes of forming a collective will.[93]

Both the earlier threat of a legitimation crisis and the neo-conservative turn that followed were from this vantage point "secondary dysfunctional effects."[94] The problem, according to Habermas, was that in addressing economic crises the administrative welfare state had become an intrusive presence in the lifeworld.

Somewhat dissatisfied with this argument, the interviewer (the Italian political philosopher Angelo Bolaffi) pointed to different trends in other parts of Europe and

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92 Habermas, "Conservatism and Capitalist Crisis," 74; Habermas, "Bolaffi: Interview with Habermas," 163. See also Peter Dews (eds.), *Autonomy and Solidarity. Interviews with Jürgen Habermas* (1992), 106. "For the first time [at the end of 1977 S.E.] I took seriously neo-conservative ideologies which had become fashionable since about 1973. I did not just shrug my shoulders as if experiencing a sense of *déjà-vu*. Rather, I considered the appearance of these militant late liberals – who followed above all Gehlen and Carl Schmitt in Germany – as signifying a broader change of climate." The other trend Habermas highlighted were popular protests against economic growth. "Both sides, the neo-conservatives and the critics of growth, … offer conflicting interpretations of the state into which Western societies have got themselves [and] manipulate unfortunate consequences of an otherwise successful stabilization of internal conditions. This stabilization was attained on the basis of the welfare-state compromise."

93 Habermas, "Conservatism and Capitalist Crisis," 74; Habermas, "Bolaffi: Interview with Habermas," 164.

94 Habermas, "Conservatism and Capitalist Crisis," 75; Habermas, "Bolaffi: Interview with Habermas," 165.

wondered whether Habermas might not underestimate the radical aspirations of the emerging "neo-liberal ideology."[95] In response, Habermas explained that he was familiar with the increasingly unrestrained calls for "the destruction of the welfare state" and the embrace of a "new monetarism of Friedmanesque orientation" but proceeded to dismiss them as reactionary castles in the sky. One could hardly take such empty chatter seriously.

> It is really impossible to imagine the welfare state being dismantled without a massive reaction from the traditional workers' organizations. For that very reason I do not regard such an attempt as either probable or imminent. It is more likely that efforts will be made to muddle through, for worse rather than better, with forms of modified Keynesianism. A government that sought to proceed otherwise would have to be able to mobilize very powerful conservative reserves, and we would then find ourselves in a situation very different from the present one – much nearer to a mobilization of the fascistoid potential in contemporary society.[96]

While Habermas thus shared with the emerging neo-liberal analysis a sense of how the inflationary crisis of the 1970s had overburdened the political system, he – like Bell – thought the resulting dilemma to be an inescapable structural constraint. The welfare state, though not without problems, was functionally necessary to appease class conflict.

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[95] Habermas, "Conservatism and Capitalist Crisis," 78; Habermas, "Bolaffi: Interview with Habermas," 167. The New Left Review also prefaced the interview with a generous introduction that however cautioned readers that "Sometimes Habermas seems to extrapolate unduly from the experience of the Bundesrepublik to other capitalist social formations." NLR, "Introduction to Jürgen Habermas," *New Left Review* 115 (May-June 1979), 71.

[96] Habermas, "Conservatism and Capitalist Crisis," 78; Habermas, "Bolaffi: Interview with Habermas," 167. See also Jürgen Habermas, "Political Experience and the Renewal of Marxist Theory: interview with Detlef Horster and Willem van Reijen, Starnberg (23 March 1979)," in *Autonomy and Solidarity. Interviews with Jürgen Habermas*, ed. Peter Dews (London and New York: Verso, 1992), 86. "If we had a rightist government that pursued, logically and thoroughly, a new economic policy in the manner of Milton Friedman – well, that would mean a dismantling of the welfare state. That in turn could lead to a revival of traditional class struggles. But I presume such a government also would be smart enough to weigh such risks."

Where neo-liberals thought it possible, indeed necessary, to dismantle the welfare state, Habermas still calmly insisted that this could not and would not happen.[97]

Instead, he suggested that it would be a more worthwhile task to study the cultural repercussions the welfare state left in its wake. Habermas's main worry was no longer a crisis of legitimacy and not yet the crisis of the welfare state but instead the rise of a new critique of reason. As he later recounted, "since the mid-1970s I have felt the pressure of the neoconservative and the poststructuralist critiques of reason, to which I responded with the concept of communicative rationality."[98] If there was a crisis of the welfare state, the crisis he had in mind was not the threat of its erosion but worries about its cultural overextension which he increasingly perceived as "colonizing the lifeworld."

> The project of the welfare state has become problematic in public consciousness, insofar as the bureaucratic means with which the interventionist state aimed to bring about the 'social restraint of capitalism' have lost their innocence. It is no longer merely the monetarization of labour power, but also the bureaucratization of the lifeworld which is experienced by broad strata of the population as a danger.[99]

While Habermas granted that neo-conservatives exploited this experience of the bureaucratization of the lifeworld, their basic concern about the perceived cultural

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[97] The machine of the welfare state, Habermas admitted in 1981, was "not running so well at the moment" but he still considered this a temporary hiccup and certainly not a predicament of erosion. Jürgen Habermas, "The Dialectics of Rationalization: Interview with Axel Honneth, Eberhard Knödler-Bunte and Arno Widmann, Berlin, 22 May 1981 and Starnberg, 10 July 1981," in *Autonomy and Solidarity. Interviews with Jürgen Habermas*, ed. Peter Dews (London and New York: Verso, 1992), 106.

[98] Jürgen Habermas, "Morality, Society, and Ethics: An Interview with Torben Hviid Nielsen," in *Justification and Application. Remarks on Discourse Ethics* (Cambridge MA: The MIT Press, 1993), 147-176, here: 149. The interview was conducted in October 1989. See also Habermas, "The Dialectics of Rationalization," 108.

[99] Jürgen Habermas, "A Philosophico-Political Profile: written interview with Perry Anderson and Peter Dews, conducted November 1984," in Peter Dews (ed.), *Autonomy and Solidarity*, 177. First published in *New Left Review* 151 (May-June 1985), 75-105.

repercussions of an overreach of the welfare state was not fictitious. As a result, the *Theory of Communicative Action* no longer focused on questions of economic crisis but instead on the cultural side-effects in the lifeworld brought about by the successful management of economic crisis.[100] The real question was not whether the welfare state was under threat but instead whether the state's successful prevention of economic crises caused cultural disturbances in the lifeworld.[101]

Not least because of the very success of the depoliticized and invisible nature of the Bundesbank's monetarist steering, Habermas became less and less interested in questions of economic crisis and instead turned his attention to the experience of lived crises in the realm of social integration. Any fuss about state versus market was from this perspective besides the point.[102] Both state administration and the market were systems of action characterized by the norm-free steering media of money and power. Consolidated into "a monetary-administrative complex" they could be opposed to the communicatively structured lifeworld.

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100 "It may be an idiosyncrasy of mine, or perhaps rather a legacy of the Frankfurt School, that, of all these side-effects, I find myself most fascinated by those which jeopardize social and cultural integration – that is to say, the potential crises that initially assume socio-psychological form." Jürgen Habermas, "Ideologies and Society in the Post-war World: interview with Gad Freudenthal, Jerusalem, 16 December 1977," Peter Dews (eds.), *Autonomy and Solidarity. Interviews With Jürgen Habermas* (1992), 51.

101 Habermas, "Demokratie oder Kapitalismus?," 59.

102 As he explained in 1981, "some try a refurbished neo-neo-Keynesianism, while others try Friedman and the monetarists, and what results is a fluctuating shift of unresolved problems from the marketplace onto the state, from the state onto the marketplace, and back again. The participants in this zero-sum game have somehow not grasped that the poles 'state' and 'society' are only two sides of the same coin – if viewed from the historical perspective of modernization." Habermas, "The Dialectics of Rationalization," 107.

5.5. The Politics of Disinflation

Bell and Habermas offered an analysis of the administrative welfare state's political dilemmas that was as perceptive as their predictions proved faulty. Indeed, what proved the predictions wrong was in some sense precisely the prescience with which Bell and Habermas had identified the pressures of legitimacy confronting the politics of economic steering. What both thinkers underestimated was the extent to which a new politics of disinflation could be derived from these pressures. Even those who made more room for transformative political agency than Habermas did in his social theory failed to see the political changes that followed.[103] As we saw, still in 1979 Habermas dismissed any talk of a "rolling back the welfare state" as empty reactionary chatter. Like Habermas, many observers were convinced that the anti-welfare state, anti-inflation hawks could hardly be taken seriously. No responsible politician would intentionally cause unemployment by single-mindedly pursuing a course of disinflation at enormous economic and, presumably, political costs that could risk the very legitimacy of government.[104]

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[103] Consider, for example, John Goldthorpe's analysis of inflation from 1978, which argued that inflation had to be understood "as the monetary expression of distributional conflict, ... ultimately grounded not in error, ignorance or unreason ... but rather in on-going changes in social structures and processes." This suggested that both inflation and the welfare state were there to stay, indeed both were signs of social maturity. John H. Goldthorpe, "The Current Inflation: Towards a Sociological Account," in *The Political Economy of Inflation*, ed. Fred Hirsch and John H. Goldthorpe (Cambridge MA: Harvard University Press, 1978), 195.

[104] As the former chairman of the Federal Reserve Arthur Burns (in office 1970-1978) insisted in 1979, it was simply "illusory to expect central banks to put an end to the inflation that now afflicts the industrial democracies." Arthur F. Burns, "The Anguish of Central Banking," *The 1979 Per Jacobsson Lecture*, Belgrade, Yugoslavia, September 30, 1979 (Washington DC: Per Jacobsson Foundation, 1979).

And yet this is what happened. Admittedly in some countries more than in others, in some earlier than in others, but what had been widely regarded as impossible only a few years earlier gradually became reality. Alasdair Roberts has described these changes toward a new "logic of discipline" since the early 1980s as nothing less than a "quiet revolution."[105] As the political possibilities of fiat money were closed down, money was consciously depoliticized on new terms. Made nominally independent from the political process by governments around the world, central banks embraced a shifting mix of monetarism, non-discretionary rules, and "market-led" monetary policy. Governments now self-consciously constrained themselves in their ability and willingness to politicize economic conflicts, seemingly granting economic policy making to the market instead. But if monetary policy had to be presented as apolitical for reasons of legitimacy, this also meant that it was no longer obliged to take economic justice or distributive concerns into account.

The recent historical literature on financialization and the politics of disinflation since the early 1980s has sought to come to terms with these transformative changes. If Bell and Habermas were prescient in their diagnosis of the political pressures of welfare capitalism, they failed to anticipate the nature and scale of the transformation that lay ahead and that has since systematically restructured the boundary between the economic and the political. More specifically, both failed to recognize the capacity of neoliberal and neoconservative ideologies to set forth an alternative path out of the legitimacy impasse. They underestimated, in short, the potential for political agency. But though they misjudged the viability of a politics of depoliticization, their analyses foreshadowed

105 Roberts, *The Logic of Discipline*, 23-46

this possibility. As I have suggested above, retrospectively, the analyses offered by Bell, Offe, and Habermas during the 1970s are strikingly perceptive in their assessment of the political impasse faced by administrative states under conditions of economic crisis – even if they misjudged the immediate road ahead.

As Bell and Habermas pointed out, the administrative state had found itself in a bind. On the one hand, the political system was required to intervene directly in economic governance more frequently and openly. On the other hand, the issues involved were so politically salient and divisive that they threatened to "overload" the political system.[106] Tellingly, when a collection of essays by Offe was translated into English in 1984, reviewers immediately picked up on these analogies. One reviewer could not help but observe that "in terms of substance, his critique of the welfare state is remarkably similar to that advanced by the neo-liberals."[107] As Joshua Cohen similarly registered in his review, "one strand of Offe's diagnosis of the crisis of the welfare state coincides with the analysis advanced by the free-market conservatives who have urged recommodification."[108] If politicization imposed strains on the political and economic system, a politics of depoliticization was a conceivable and intelligible response.

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106 Bell, *The Cultural Contradictions of Capitalism*, 235.

107 "Both left and right are agreed," the reviewer added, "in a general sort of way, on the incompatibility of the welfare state and capitalist society." Rudolf Klein, "Review of Claus Offe, Contradictions of the Welfare State," *Journal of Social Policy* 13, no. 04 (October 1984), 485-486. The reviewed book was Offe, *Contradictions of the Welfare State*.

108 Joshua Cohen, "Review of Claus Offe, Contradictions of the Welfare State," *The Philosophical Review* 97, no. 3 (Jul., 1988), 435-440, here: 438. "Both hold that the growth of the welfare state has significantly restricted economic growth, by providing nonmarket sources of income that weaken incentives to work, by imposing burdens of taxation and regulation that weaken incentives to invest, and by relying on schemes of deficit financing that crowd private capital out of financial markets."

In light of the most recent Financial Crisis, several scholars have in this spirit productively recovered elements of 1970s Frankfurt crisis theory to account for the embrace of financialization. As Wolfgang Streeck puts it in his dissection of the Eurocrisis, the analysis offered by Habermas and Offe of "the dilemmas of the politicized economy of post-war capitalism after it had lost the capacity to deliver growth appears unexpectedly farsighted and fresh."[109] The only problem with the crisis literature, according to Streeck, was that their conclusions came thirty years too early.[110] "Perhaps all that was wrong with the crisis theories of the 1970s was that they did not know about the one ace capitalism still had up its sleeve, which was 'financialization': they described as imminent what was to come only after a protracted detour through the intricacies of advanced finance."[111]

In her elegant account of financialization and depoliticization, Greta Krippner has similarly turned to Daniel Bell and Frankfurt crisis theory to frame the economic changes of the 1980s and 1990s, albeit as experimental responses that sought to evade the dilemma outlined by Bell and Habermas.[112] Taking her cue from Frankfurt crisis theory but emphasizing the force of political change, Krippner has suggested that the history of the neoliberal great transformation cannot be written either according to a structuralist model or merely as the inexplicable resurgence of long-discredited ideas, but that it must rather be seen as an unpredictable story of intellectual and political experimentation with

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109 Wolfgang Streeck, "Review Symposium: Greta R. Krippner, Capitalizing on Crisis," *Socio-Economic Review* 10 (2012), 403-18, here 410-411.

110 Hence the title of Streeck's 2012 Adorno Lectures in Frankfurt: *Buying Time*.

111 Streeck, "Review Symposium: Greta R. Krippner, Capitalizing on Crisis," 411.

112 Krippner, *Capitalizing on Crisis*, 16, 19-21, 107, 167n4.

unintended consequences.[113] As a result, Krippner unfolds a narrative that is politically contingent, experimental, and at the same time utterly transformative in unanticipated ways.[114] Coming out of the open re-politiciziation of economic relations during the 1970s, the question that emerged according to Krippner was how policymakers could guide market outcomes while avoiding responsibility for lackluster economic performance. As she brilliantly illustrates through a detailed reading of the minutes of the Federal Reserve's Open Market Committee (FOMC), monetary policymakers confronted a particularly acute version of this dilemma.[115] Building on Habermas's and Offe's accounts of a latent crisis of legitimacy but reading the underlying pressures as political rather than structural, Krippner shows to what lengths the Federal Reserve went since the late 1970s in order to appear not to be in direct control, and therefore not politically responsible for monetary policy. If tight monetary policy meant placing people out of

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113 Greta Krippner, *Capitalizing on Crisis. The Political Origins of the Rise of Finance* (Cambridge MA: Harvard University Press, 2011).

114 Krippner focuses on three developments: the deregulation of interest rates for savings accounts at banks, the ability of foreigners to hold U.S. public debt, and a fiercely anti-inflationist depoliticized monetary policy. The open-ended nature of the domestic tensions was compounded on the international level. The dawn of the age of fiat currencies, economic deregulation, the financialization of the American economy, and the push for international capital mobility must be seen in light of the domestic and global political pressures faced by America state since the 1970s. See Mazower, *Governing the World*, 343-377, esp. 343-346, as well as Sargent, "North/South: The United States Responds to the New International Economic Order," 201-216.

115 Krippner, *Capitalizing on Crisis*, 107. Peter Burnham has set out this logic most explicitly and lucidly in his account of the politics of depoliticization in the British case. Peter Burnham, "New Labour and the politics of depoliticization," *The British Journal of Politics & International Relations* 3, no. 2 (June 2001), 127-49. See also the subsequent exchange: Matthew Flinders and Jim Buller, "Depoliticization: Principles, Tactics, and Tools," *British Politics* 1 (2006), 1-26. Peter Burnham, "Depoliticisation: A Comment on Buller and Flinders," *British Journal of Politics and International Relations* 8 (2006), 303-06. Colin Hay helpfully disentangles the domestic and global sources of depoliticization, Colin Hay, *Why We Hate Politics* (Cambridge: Polity Press, 2007).

work and causing economic harm to those already struggling, it was better not to be seen doing so intentionally.

Initially, policymakers had sought to deregulate markets in the 1970s in the hope of exerting discipline on proliferating demands on the state. But as Krippner points out, these hopes were frustrated. "Paradoxically, the market was not the strict disciplinarian imagined by neoliberal visionaries, operating with the blunt force of unforgiving nature, but a surprisingly lax master."[116] Instead, market discipline had to be deliberately enforced in the form of monetary policy. Just as Polanyi had described how the laissez-faire economy of the late eighteenth century was consciously planned, so the invocation of monetarist market forces was guided and executed by the state.[117]

As a result, the Fed developed a number of rhetorical and technical tools in order to be able to raise interest rates without being blamed for doing so.[118] Initially, this involved the pretense of following certain fixed monetarist rules to control the money supply in order to justify sharp increases in interest rates that undercut inflationary expectations but also caused an artificial economic crisis and increased unemployment.[119] The move toward depoliticization thus came in part out of policy makers' desire to avoid

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116 Krippner, *Capitalizing on Crisis*, 141.

117 Karl Polanyi, *The Great Transformation: The Political and Economic Origins of Our Time*, 2nd ed., with a new introduction by Fred Block and a foreword by Joseph E. Stiglitz (Boston: Beacon Press, 2001), 147.

118 Krippner, *Capitalizing on Crisis*, 142.

119 The Fed would later move toward a system of letting "the market" set interest rates or using intentionally abstract and convoluted language to turn an open-ended collective decision into a seemingly technical formality by an independent technocratic body without much room of maneuver. As Krippner perceptively points out, even the conscious discipline of monetarism eventually gave in to "market-led" monetary policy that though still politicized favored a more expansive credit policy. Krippner, *Capitalizing on Crisis*, 106-137.

directly taking responsibility for making distributive decisions. Interestingly, what was not initially envisioned but turned out to be crucial was that financial deregulation led to an expansion of available credit that helped to ease some of the distributional conflicts, though not the underlying growing inequalities. Financialization disguised, and for a while eased, the distributional questions that the slowing of growth during the 1970s had brought to the fore. Despite this easing effect of financialization the indirect but no less harsh control over the economy through disinflationary "depoliticized" monetary policy emerged, just as it had done earlier in West Germany, as the most effective tool of discipline. What paved the way toward these changes and gave them intellectual cover was a focused discourse that placed inflation at the heart of the experience of crisis of the 1970s and blamed the post-war consensus – misleadingly dubbed "Keynesian" – for it.

While liberal political theorists today largely avoid discussions of monetary politics, this was not the case for conservative and libertarian critics of the postwar consensus, such as for example Friedrich Hayek. Money, Hayek had explained in *The Road to Serfdom* (1944), "is one of the greatest instruments of freedom ever invented by man."[120] In *The Constitution of Liberty* (1960), he had laid out in detail the importance of "the monetary framework" for any classically liberal position.[121] If the primary function of the price system was to act as a mechanism for communicating information, a stable monetary system was imperative not just for economic reasons but for the very

120 Friedrich August Hayek, *The Road to Serfdom: Text and Documents. The Definitive Edition*, ed. Bruce Caldwell, The Collected Works of F. A. Hayek, Volume 2 (Chicago: The University of Chicago Press, 2007), 125.

121 Friedrich August Hayek, *The Constitution of Liberty [1960]*, ed. Bruce Caldwell and Ronald Hamowy, The Collected Works of F.A. Hayek, Vol. 17 (Chicago: The University of Chicago Press, 2011), ch. 21, 451-465.

functioning of society.[122] This was a political task. The proper functioning of the price mechanism required an appropriate legal and monetary system, something that, as Hayek had argued in *The Road to Serfdom*, could "never be adequately provided by private enterprise."[123] Instead, it was the government that had to set up laws and provide stable money "to provide a favorable framework for individual decisions."[124] The 1970s would come to alter his assessment on this score.

Since the end of World War II, Hayek recounted in 1960, "governments have assumed a much more active part in controlling money, and this has been as much a cause as a consequence of instability." Given the vast power that derived from the currency, he explained, "[i]t is only natural that some people should feel it would be better if governments were deprived of their control over monetary policy. Why, it is asked, should we not rely on the spontaneous forces of the market to supply whatever is needed for a satisfactory medium of exchange as we do in most other respects?" Though fundamentally sympathetic toward the intentions behind such proposals, by 1960 Hayek still cautioned against them as "politically impracticable" and, even if practicable, "probably … undesirable" all consequences considered. As Hayek had to admit, historical developments had created conditions that made "necessary some deliberate control of the interacting money and credit systems."[125] Keynes's interwar demand for governments to exercise deliberate control over the currency had become an inescapable

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122 Friedrich August Hayek, "The Use of Knowledge in Society," 35, no. 4 (Sep., 1945), 519-30, esp. 526. See also Friedrich August Hayek, *Law, Legislation and Liberty, Volume 1: Rules and Order* (Chicago: The University of Chicago Press, 1973), 103-104.

123 Hayek, *The Road to Serfdom*, 87.

124 Hayek, *The Constitution of Liberty*, 332.

125 Hayek, *The Constitution of Liberty*, 451; 452.

truth. But as Hayek immediately added, granting this fact did not necessarily entail a resigned acceptance of defeat but should be seen instead as a temporary truce. "For the moment," he assessed in 1960, "the important fact is that, as long as government expenditure constitutes as large a part of the national income as it now does everywhere, we must accept the fact that government will necessarily dominate monetary policy and that the only way in which we could alter this would be to reduce government expenditure greatly."[126] The politicization of money during the inflationary 1970s suddenly gave this wager new urgency and momentum, ultimately altering Hayek's assessment.

By the mid-1970s growing discontent over inflation had opened up a window of opportunity for those who had long hoped for a "constitutional counter-revolution" (James Buchanan) against the New Deal, against the Warren Court, and against the Great Society.[127] Having neglected monetary policy for much of the 1960s, by the summer of 1974, Hayek recounted, "the problem of inflation had become so alarming that I felt it to be my duty once again to speak out."[128] Further bolstered by his award of the Nobel Price in Economic Sciences later in 1974, Hayek changed gears from cautious to ebullient. As he now declared boldly in his 1976 pamphlet on "The Denationalization of Money," recurrent periods of depression and unemployment were simply "a consequence of the

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126 Hayek, *The Constitution of Liberty*, 452.

127 Brian Barry, "Does Democracy Cause Inflation?," in *The Politics of Inflation and Economic Stagnation*, ed. Leon N. Lindberg and Charles S. Maier (Washington, D.C.: The Brookings Institution, 1985), 317.

128 Friedrich August Hayek, "The Campaign Against Keynesian Inflation," in Friedrich August Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas* (Chicago and London: University of Chicago Press and Routledge & Kegan Paul, 1978), 191.

age-old government monopoly of the issue of money."[129] "History," Hayek lamented, "is largely a history of inflation, and usually inflations engineered by governments and for the gain of governments."[130] It was time for governments to be stripped of their monopoly and forced to turn over the issuance of money to private enterprise. In exactly reversing Polanyi's argument, Hayek concluded that "the past instability of the market economy is the consequence of the exclusion of the most important regulator of the market mechanism, money, from itself being regulated by the market process."[131] The solution, for Hayek, was to submit money fully to the market and remove it altogether from the hands of governments. Money was too dangerous an instrument to leave to the "fortuitous expediency" of politicians or indeed economists.[132] Instead, money had to be wrestled away from the levers of policy. "Our only hope for a stable money," Hayek declared, "is indeed now to find a way to protect money from politics. … You may feel

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129 Friedrich August Hayek, "The Denationalization of Money: An Analysis of the Theory and Praxis of Concurrent Currencies [1978]," in *Good Money, Part II*, ed. Stephen Kresge, The Collected Works of F.A. Hayek, Vol. 6 (Indianapolis: Liberty Fund, 1999), 128-229; here: 129. For two related pieces, see Hayek, "Toward a Free Market Monetary System," *Good Money, Part II*, 230-237 and Hayek, "The Future Unit of Value," *Good Money, Part II*, 238-252.

130 Hayek, "The Denationalization of Money," 142. As he had explained in the first volume of *Law, Legislation and Liberty*: "Though an indispensable requirement for the functioning of an extensive order of cooperation of free people, money has almost from its first appearance been so shamelessly abused by governments that it has become the prime source of disturbance of all self-ordering processes in the extended order of human cooperation." Hayek, *Law, Legislation and Liberty, Vol. 1*, 103-104.

131 Hayek, "The Denationalization of Money," 202.

132 Hayek, "Choice in Currency," 120.

that my proposal amounts to no less than the abolition of monetary policy; and you would not be quite wrong."[133]

But if Hayek portrayed his solution as a turn away from politics, he was at the same time clear that it originated itself in a particular vision of politics, albeit of a very different kind. As he explained, his nostalgia for the gold standard was not born out of some confused economic doctrine that gold somehow directly determined the value of money. Instead, his was a political argument. What gold had provided, and what was now so sorely lacking, was "discipline."[134] As a tool of depoliticization, gold had naturalized economic sacrifices that would otherwise have been visible as conscious political decisions. Hayek explicitly linked this line of thought to classical liberalism and credited both Locke and Smith for it.[135] As his epigraph for the "Denationalization of Money" he consequently chose a passage from the *Wealth of Nations* in which Smith echoed Locke in lamenting the widespread injustice of debasement: "For in every country of the world, I believe, the avarice and injustice of princes and sovereign states abusing the confidence

133 Hayek, "Choice in Currency," 120; 125. First published as Friedrich August Hayek, *Choice in Currency. A Way to Stop Inflation* (London: The Institute of Economic Affairs (IEA), February 1976). Retrospectively, Hayek thought of his proposal to denationalize money one of his major inventions. As he put in an interview from 1983, "Sometimes in private I say I have made one discovery and two inventions in the social sciences: the discovery is the approach of the utilization of dispersed knowledge, ... the two inventions I have made are the denationalization of money and my system of democracy." As cited in Bruce Caldwell, *Hayek's Challenge. An Intellectual Biography of F.A. Hayek* (Chicago: The University of Chicago Press, 2004), 206.

134 Hayek, "Toward a Free Market Monetary System," 231, 233. "[W]e must face the fact that in the present situation merely to stop the inflation or even to slow down its rate will produce substantial unemployment. Certainly nobody wishes this, but we can no longer avoid it and all attempts to postpone it will only increase its ultimate size." Hayek, "The Campaign Against Keynesian Inflation," 192.

135 On Hayek's references to Locke, see Stephen Kresge, "Introduction," in *Good Money, Part II*, The Collected Works of F.A. Hayek (Indianapolis: Liberty Fund, 1999), 17.

of their subjects, have by degrees diminished the real quality of the metal, which had been originally contained in their coins."[136]

According to Hayek, the question of stable money was at the very heart of modern liberalism. While he admitted that the prospect of taking away control over money from governments might appear audacious, he pointed to the precedent of religious toleration. "Three hundred years ago," he exclaimed, "nobody would have believed that government would ever give up its control over religion."[137] Just as Keynes had invoked the legacy of rationalism for his argument in favor of governmental control over the currency, Hayek pitched his call for the denationalization and depoliticization of money as a political struggle of modern liberalism against two age-old "superstitions" that had governed most of earlier history – namely, first, that governments were to supply currencies and, secondly, that increases in the money supply could produce prosperity.[138] As a result of these two creeds, Hayek insisted, history had been largely a history of inflation. Only the two hundred years from the late seventeenth century to World War I (with the exception of the Suspension Period I discussed in Chapter 3) had offered a "unique period of monetary stability" during which a metal standard imposed discipline

136 Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* [1776], ed. R. H. Campbell and A. S. Skinner, 2 vols., Glasgow Edition of the Works and Correspondence (Oxford: Clarendon Press, 1976), Bk. I, ch. iv, 43. As cited in Hayek, "The Denationalization of Money," 128.

137 Hayek, "Toward a Free Market Monetary System," 236. Hayek occasionally portrayed money as constitutively immune to reason. "Money, the very 'coin' of ordinary interaction, is hence of all things the least understood and – perhaps with sex – the object of greatest unreasoning fantasy." Hayek, *Law, Legislation and Liberty, Vol. 1*, 101.

138 Hayek, "Choice in Currency," 115. See also Hayek, "The Denationalization of Money," 128-129.

and stability.[139] Hayek now grasped for anything that could once more enforce sacrifice. "Without the conviction of the public at large that certain immediately painful measures are occasionally necessary to preserve reasonable stability, we cannot hope that any authority which has power to determine the quantity of money will long resist the pressure for, or the seduction of, cheap money."[140]

By the mid-1970s these sentiments – long dear to Hayek and his acolytes – suddenly and quite unexpectedly began to resonate with a wider circle of policy makers.[141] Though the disinflationary push would later come to be associated with Paul Volcker and the political patronage of Reagan and Thatcher, it was in fact the Carter administration that began to sound the theme and that, not incidentally, appointed Volcker to chair the Federal Reserve in 1979.[142] Alfred Kahn, Carter's key advisor on inflation who had previously overseen the deregulation of the American airline industry as chairman of the U.S. Council on Wage and Price Stability, captured the Hayekian longing for economic discipline when asking rhetorically: "Can a democracy discipline

139 Hayek, "Choice in Currency," 115. For Hayek's take on the Suspension Period, see Friedrich August Hayek, "The Period of Restrictions, 1797-1821, and the Bullion Debate in England," in *The Trend of Economic Thinking. Essays on Political Economists and Economic History*, ed. W. W. Bartley III and Stephen Kresge, The Collected Works of F. A. Hayek (Chicago: Chicago University Press, 1991), as well as Friedrich August Hayek, "Introduction," in *Henry Thornton, An Enquiry into the Nature and Effects of the Paper Credit of Great Britain* (London: George Allen and Unwin, 1939).

140 Hayek, "Choice in Currency," 120.

141 See also Eric Helleiner, "Denationalizing Money?," in *International Financial History in the Twentieth Century. System and Anarchy*, ed. Marc Flandreau, Carl-Ludwig Holtfrerich, and Harold James (Cambridge: Cambridge University Press, 2003).

142 On Carter's self-fashioning as a technocratic engineer and the "reification of technique" this entailed, see Stephen Skowronek, *The Politics Presidents Make: Leadership from John Adams to Bill Clinton* (Cambridge MA: Belknap Press, 1997), 365-374. Thanks to Blake Emerson for the pointer.

itself? What is it that creates this sense of helplessness? It's clearly something that has to do with the lack of social discipline."[143]

Hayek's radical proposal for the full privatization of money required an enormous leap of faith that went too far even for many of his closest sympathizers. But in the age of deepening inflation anxiety the search for discipline helped to change the terms of debate and legitimized the rise of a new politics of anti-inflationism. Hayek's thought could thereby become the intellectual vanguard of a remaking of the monetary order even where the reforms ultimately fell short of his prescriptions. The mainstream of monetary economics began to shift. Full denationalization was a step too far, but why not tie monetary policy to fixed and unalterable rules?[144] Why not allow for more private credit money? Milton Friedman proved to be the ideal salesman for such a suitably packaged political program of economic liberalization and a hawkish, monetarist anti-inflationism.[145] After a decade of ceaseless mobilization, by the end of the 1970s Friedman could announce that "the tide is turning."[146] Ushered in under Carter, but subsequently exemplified by Reagan and Thatcher, political leadership came to be redefined in terms of anti-inflation politics. It may have been centrist and social

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143 As quoted in Roberts, *The Logic of Discipline*, 23.

144 As argued influentially by Finn E. Kydland and Edward C. Prescott, "Rules Rather than Discretion: The Inconsistency of Optimal Plans," *The Journal of Political Economy* 85, no. 3 (Jun., 1977).

145 Bolstered by a Nobel Prize of his own and enjoying the esteem of his and Anna Schwartz's iconoclastic takedown of the Great Depression Fed, Friedman's monetarist beacon shone. Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton: Princeton University Press, 1963). On the rise of monetarism, see Daniel Stedman Jones, *Masters of the Universe: Hayek, Friedman, and the Birth of Neoliberal Politics* (Princeton: Princeton University Press, 2012), 180-272.

146 As quoted in Stedman Jones, *Masters of the Universe*, 180.

democratic governments who initiated this turn in the late 1970s, but ultimately it was conservative moral and political entrepreneurs who could more credibly inhabit the mantle of anti-inflation hawks and, with the help of swarms of social scientists and policy advisors, rationalize the new logic of discipline.[147]

5.6. The Missing Political Theory of Money

It was this depoliticization of money in the name of disinflation that provided the context to Habermas's mature social theory and allowed his account of money as norm-free to pass as plausible. Where the economy had previously lingered somewhat ambiguously between late-capitalist steering and the semblance of depoliticization, in the *Theory of Communicative Action* (1981) Habermas rigorously and self-consciously reduced money to a "de-linguistified [*entsprachlicht*]" steering medium devoid of normativity.[148] Lacking linguistified reason the economic system was "depoliticized [*entpolitisiert*] and given over to nongovernmental subsystems."[149] As a depoliticized subsystem, Habermas explained, the economy "owes its emergence to a new mechanism, the steering medium of money. This medium is specifically tailored to the economic function of society as a whole, a function relinquished by the state; it is the foundation of

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[147] Besides Roberts, *The Logic of Discipline*, see Mark Blyth, *Great Transformations. Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge: Cambridge University Press, 2002) for a Polanyi-inspired account of this "disembedding of liberalism."

[148] Jürgen Habermas, *The Theory of Communicative Action, Vol. 2: Lifeworld and System: A Critique of Functionalist Reason [1981]*, trans. Thomas McCarthy (Boston: Beacon Press, 1987) [TCA 2], 171-172, 184, 264-273, 342-343. Habermas, *Theorie des Kommunikativen Handelns*, Band 2 [TCA 2], 255-257, 274-275, 395-400, 503-504.

[149] Habermas, *Theory of Communicative Action, Vol. 2* [TCA 2], 171. Habermas, *Theorie des Kommunikativen Handelns*, Band 2 [TCA 2], 255.

a subsystem that grows away from normative contexts."[150] Monetary exchange embodied a "norm-free social structure," "a block of more or less norm-free sociality" produced by the kind of functional differentiation that marked capitalist modernity.[151] Where he had previously spoken of a necessary semblance of depoliticization, Habermas now seemingly accepted, *pace* Polanyi, the viability of a disembedded economy.

This reduction of money to a norm-free steering medium related directly to Habermas's double wager in the *Theory of Communicative Action*. This involved, first, grafting a normative account of language onto the trunk of systems theory and, secondly, revising existing accounts of reification in the light of this new theory of communicative action. By fusing an analysis of systems with an account of linguistic normativity, Habermas explained, it was possible to complicate Weber's rationalization thesis and trace the divergent effects of rationalization in the systemic and social realms. Society was now conceived of as bifurcated, simultaneously consisting of "system" and "lifeworld," each in turn associated with the corresponding forces of system and social integration based on instrumental and communicative rationality, respectively.[152] Thanks to the distinction between system and lifeworld Habermas was able to slice through the

150 Habermas, *Theory of Communicative Action, Vol. 2* [TCA 2], 171. Habermas, *Theorie des Kommunikativen Handelns*, Band 2 [TCA 2], 255.

151 Habermas, *Theory of Communicative Action, Vol. 2* [TCA 2], 185, 171. "In subsystems differentiated out via steering media, systemic mechanisms create their own, norm-free social structures jutting out from the lifeworld." Habermas, *Theorie des Kommunikativen Handelns*, Band 2 [TCA 2], 275, 255.

152 This was a distinction introduced into systems theory by David Lockwood in 1964. David Lockwood, "Social Integration and System Integration," in *Social Change: Explorations, Diagnoses, and Conjectures*, ed. George K. Zollschan and Walter Hirsch (New York, London, Sidney, Toronto: John Wiley & Sons, 1964), 370-383. See Habermas, *Theory of Communicative Action, Vol. 2* [TCA 2], 117-118. Habermas, *Theorie des Kommunikativen Handelns*, Band 2 [TCA 2], 179-180.

old binary of state and economy in a novel way that opposed the communicative lifeworld of social interaction to an administrative-economic complex guided by "norm-free steering media." Habermas's effort of drawing a strict opposition between speech and money, only granting the latter normative purchase, reflected this attempt to add a linguistic normative dimension to what he perceived to be Weber's one-sided pessimism and Niklas Luhmann's technocratic cynicism.

To appropriate systems theory by adding a strict opposition between money and speech entailed a self-consciously ironic provocation. After all, the Parsonian system-theoretic framework that Habermas came to adapt for his purposes had originally been built precisely by analogizing from the medium of money to those of speech and power.[153] From Parsons' and Luhmann's perspective, money, power, and speech shared constitutive qualities. Both language and money were, in Luhmann's words, "generalized symbolic media of communication."[154] To think of money as a measure of value or a medium of exchange captured its economic role but from the broader perspective of social theory such categories were too narrow. They prevented one from seeing the comparability of money to other social institutions. Instead, Luhmann and Parsons proposed a more abstract conception of money as a symbolically generalized special language. For Parsons, such generalized media were "symbolic codes" that steered multiple relations of exchange. Indeed, as Luhmann explained, "all generalized media are from this perspective from the beginning conceived as media of exchange and thus in

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153 On Habermas's engagement with systems theory since the 1970s, see the Jürgen Habermas and Niklas Luhmann, *Theorie der Gesellschaft oder Sozialtechnologie – Was leistet die Systemforschung?* (Frankfurt am Main: Suhrkamp, 1971).

154 Niklas Luhmann, "Knappheit, Geld und die bürgerliche Gesellschaft," *Jahrbuch für Sozialwissenschaft* 23 (1972), 195.

analogy to money."[155] Not incidentally, both Parsons's and Luhmann's analyses were themselves consciously saturated with metaphors of monetary flows.

As Habermas conceded, to analogize from money to other media was an imaginative move but Parsons's leap had relied on an overgeneralization that failed to consider the structural normative differences between the media of money and speech. In drawing a set of "structural analogies" between money and the other two media of power and speech Parsons had handled these analogies in an abstract, imprecise, and "eventually purely metaphorical" manner.[156] But did it follow that money was "norm-free" and "delinguistified"? After all, Habermas never denied the general analogy between money and language.[157] Instead, he described money as a "special language" and pointed to the normative poverty of the language of money. The medium of money, he explained in *The Philosophical Discourse of Modernity* (1985), was "a specially encoded steering language" that had "branched off from normal language as a special code tailored to special situations (of exchange)."[158] This meant that money could at times be used as an

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155 Luhmann, "Knappheit, Geld und die bürgerliche Gesellschaft," 196.

156 Jürgen Habermas, "Handlung und System: Bemerkungen zu Parsons' Medientheorie," in *Verhalten, Handeln und System. Talcott Parsons' Beitrag zur Entwicklung der Sozialwissenschaften*, ed. Wolfgang Schluchter (Frankfurt am Main: Suhrkamp, 1980), 69. On money, metaphor, and language, see also Jacques Derrida, "White Mythology: Metaphor in the Text of Philosophy," *New Literary History* 6, no. 1 (Autumn 1974), 5-74.

157 Luhmann responded with characteristically laconic skepticism to Habermas's disanalogy. "One can of course simply deny a certain structural isomorphism between meaning and money if one has something different in mind by meaning [*wenn man mit Sinn etwas anderes im Sinn hat*]. Arguably, this means however losing insights very much worth preserving." Niklas Luhmann, *Die Wirtschaft der Gesellschaft* (Frankfurt am Main: Suhrkamp, 1988), 232-233.

158 Jürgen Habermas, *The Philosophical Discourse of Modernity: Twelve Lectures*, trans. Frederick G. Lawrence (Cambridge MA: The MIT Press, 1985), 351.

effective substitute for communication to achieve a coordination of actions "without having to lay claim to the resources of the lifeworld."[159] Money was thus an efficient medium to achieve economic coordination but the forms of interaction it made possible were specifically "de-worlded" (*entweltlicht*) and lacked intersubjectivity.[160] In fact, it was precisely this lack of normativity that made money such an efficient medium. If the resources of the lifeworld were strained by increasing rationalization, money emerged as a tempting "relief mechanism" that could replace the linguistic normativity of mutual understanding by norm-free coordination.[161] Precisely because of money's ability to unburden the lifeworld, a lifeworld caught in cultural crisis would have to rely more and more on norm-free steering media such as money. This was not without costs. It was here that Habermas's analysis converged with older theories of reification.

If the engagement with Luhmannian systems-theory accounted for one part of Habermas's distinction between system and lifeworld, his ambition to revise the tradition of Weberian "Western Marxism" shaped it just as much. The "decoupling of system from lifeworld," he explained in pointing to the delegation of coordination from communicative understanding to monetary exchange, "is experienced within modern lifeworlds as a reification of life forms."[162] While the monetization of social relations

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159 Habermas, *Philosophical Discourse of Modernity*, 351.

160 Habermas, *Philosophical Discourse of Modernity*, 350.

161 Habermas, *Theory of Communicative Action, Vol. 2* [TCA 2], 183; Habermas, *Theorie des Kommunikativen Handelns*, Band 2 [TCA 2], 272. "The growing pressure for rationality that a problematic lifeworld exerts upon the mechanism of mutual understanding increases the need for achieved consensus, and this increases the expenditure of interpretive energies and the risk of dissensus."

162 Habermas, *Philosophical Discourse of Modernity*, 352.

offered itself as a tempting relief mechanism, this came with the inevitable experience of reification.

For Habermas, the "colonization of the lifeworld" thesis in *The Theory of Communicative Action* was in this light an attempt to preserve some of the intuitions behind Georg Lukács's earlier account of reification while revising them in his own social theory of communicative action.[163] In *History and Class Consciousness* (1923), Lukács had developed an account of "reification" (*Verdinglichung*) by combining Marx's analysis of the universalization of the commodity form with a Weberian account of modern rationalization.[164] In revising the intellectual legacies of both Marx and Weber, Habermas's goal was now to reconceptualize reification as the intrusion of systemic rationality into the communicative lifeworld.[165] According to Habermas, the symbolic interaction and communicative intersubjectivity of the lifeworld was constantly threatened and colonized by the systemic, instrumental rationality of money and power.

163 Thomas McCarthy has even suggested that "one of the principal aims of *The Theory of Communicative Action* [is] to develop a more adequate version of the theory of reification." Thomas McCarthy, *Ideals and Illusions: On Reconstruction and Deconstruction in Contemporary Critical Theory* (Cambridge MA: MIT Press, 1991), 152. Cited by Martin Jay, "Introduction," in Axel Honneth, *Reification. A New Look At An Old Idea*, With Commentaries by Judith Butler, Raymond Geuss and Jonathan Lear. Edited and Introduced by Martin Jay (Oxford: Oxford University Press, 2008), 13n6.

164 Georg Lukács, *History and Class Consciousness [1923]*, trans. Rodney Livingstone (Cambridge MA: The MIT Press, 1972). First published as Georg Lukács, *Geschichte und Klassenbewusstsein* (Berlin: Malik, 1923). Lukács later disavowed key aspects of his earlier account of reification. As he explained in a new preface in 1967, in *History and Class Consciousness* he had still looked at reification partially through the eyes of his former romantic self and had thus failed to sufficiently distinguish between reification and objectification. Georg Lukács, "Preface to the New Edition (1967)," in *History and Class Consciousness* (Cambridge MA: The MIT Press, 1967), ix-xxxix.

165 Habermas's earlier dualism between "purposive-rational systems" and "institutional frameworks" in his critique of technocracy was thus recast "at a higher level of reflection" (Honneth) in the form of the distinction between system and lifeworld. Axel Honneth, *The Critique of Power* (Cambridge MA: MIT Press, 1991), 292.

The tendency of welfare capitalism to penetrate into the lifeworld furthermore triggered new forms of social conflict and protests against these intrusions in the form of new social movements.[166] Habermas presented his ability to provide an analytical account of the new protest movements as one of the pay-offs of his turn "from the 'paradigm of distribution' to the 'grammar of forms of life.'"[167] But if Habermas's mature social theory thus mirrored the broader change from redistribution to recognition, it also partook in the depoliticization of the economy.[168]

Not everyone was convinced by this line of thought. Several of Habermas's interlocutors immediately wondered whether his assessment that economic crises were no longer on the agenda and that the crucial issues were instead crises of social integration was not a little complacent. Wasn't this a peculiarly West-German assumption, Axel

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166 Habermas has described his interest in the possible pathologies of the lifeworld both as a reflection of early critical theory's attention to cultural crisis as well as an attempt on his part to account for a new proliferation of social movements since the mid-1970s. As Habermas explained concerning the former, "It may be an idiosyncrasy of mine, or perhaps rather a legacy of the Frankfurt School, that, of all these side-effects, I find myself most fascinated by those which jeopardize social and cultural integration – that is to say, the potential crises that initially assume socio-psychological form." Jürgen Habermas, "Ideologies and Society in the Post-war World: interview with Gad Freudenthal, Jerusalem, 16 December 1977," Peter Dews (eds.), *Autonomy and Solidarity. Interviews With Jürgen Habermas* (1992), 51. On both points, see Benhabib, *Critique, Norm, and Utopia*, 250 and 390n22.

167 Jürgen Habermas, "New Social Movements," *Telos* 49 (September 1981) , 33. See also Benhabib, *Critique, Norm, and Utopia*, 350 and 390n22; as well as Nancy Fraser, *Fortunes of Feminism: From State-Managed Capitalism to Neoliberal Crisis* (London and New York: Verso, 2013), 6, 159-173; and Seyla Benhabib and Maurizio Passerin d'Entrèves, "Introduction," in *Habermas and the Unfinished Project of Modernity. Critical Essays on The Philosophical Discourse of Modernity*, ed. Seyla Benhabib and Maurizio Passerin d'Entrèves (Cambridge MA: The MIT Press, 1997), 4.

168 Nancy Fraser and Axel Honneth, *Redistribution or Recognition? A Political-Philosophical Exchange* (New York: Verso, 2003).

Honneth asked in 1981?[169] What about predictions of unprecedented levels of permanent unemployment across the OECD? What about the first reports of de-industrialization across what would soon come to be known as the American rust belt? Habermas responded by affirming his premises and offering two scenarios. If the conditions for the welfare state continued to be fulfilled, the cultural problems of social integration described in the *Theory of Communicative Action* were real. If, by contrast, the welfare state ceased to be the institutionalized compromise for clashing economic interests, all bets were off. "Then we would see some variant of traditional conflicts," Habermas conceded, adding that it was far from clear how such a showdown would end.[170] As we saw, it was a variation of the latter scenario that won the day while the return of traditional class conflicts was – at least until the Financial Crisis – bought off through financialization.

Even for several of Habermas's closest interlocutors, the analytical and rhetorical effect of the distinction between system and lifeworld – with its attendant ramifications about the scope of political agency – has not always been wholly satisfactory. According to Habermas, the distinction between system and lifeworld is one of social philosophy and the philosophy of action in that it distinguishes functionally between symbolic and systemic reproduction based on the mechanism through which actions are socially coordinated.[171] But it is questionable whether the very delineation of the boundary

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169 Habermas, "The Dialectics of Rationalization," 117.

170 Habermas, "The Dialectics of Rationalization," 118.

171 Habermas's language in describing the distinction often reinforces this. Reading the *Theory of Communicative Action* it is easy to come away thinking of "system" and "lifeworld" as referring to distinct societal realms – a reading encouraged by Habermas's own spatial metaphor of the colonization of the lifeworld.

between system and lifeworld can itself be theoretically or functionally derived. Instead, it must be communicatively justified by communicative agents who themselves can thus also challenge its delineation. The drawing of the boundary between system and lifeworld is itself a political and linguistic act with profound ramifications.

When Honneth returned to these problems in his 2005 Tanner lectures he argued that while Lukács's conception of reification had been insufficiently abstract, Habermas's attempt to draw on external functionalist criteria to decide whether a social action was communicative or systemic "implicitly loads these functionalist distinctions with a normative burden of proof that they cannot possibly shoulder."[172] Habermas's functionalist presumption was that speech was communicative whereas money lacked normativity. But as Honneth suggested in passing, the "normative burden of proof" was thereby placed upon money in such a way that no medium, including speech, could possibly consistently satisfy it. Instead, whether a certain medium should be held to normative standards could never be a purely functionalist decision but constituted itself a normative question that "cannot be answered by speaking of functional requirements in an apparently nonnormative way."[173] Whether money was a normative language or a

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172 Axel Honneth, *Reification. A New Look At An Old Idea*, edited and introduced by Martin Jay (Oxford: Oxford University Press, 2008), 55. Instead of either following Lukács's or Habermas's lead, Honneth traced the phenomenon of reification instead to the "forgetfulness of recognition." Honneth, *Reification*, 75. Already in his *Critique of Power* (1985), Honneth questioned Habermas's functionalist distinction between system and lifeworld along similar lines. See Honneth, *The Critique of Power*, 278-303.

173 Honneth, *Reification*, 55. As Martin Jay commented on Honneth's reification lectures: "Not content with a perpetual split between a lifeworld based on symbolic interaction and an alienated social system based on instrumental, strategic rationality and abstract steering mechanisms such as money, he [Honneth] holds out hope for a more fundamental transformation of human relations." Martin Jay, "Introduction," in Honneth, *Reification*, 8.

norm-free steering medium could not be answered theoretically but required itself normative and political discourse. Doing so would have first of all required some attention to money's role as currency. But while money may involve coordination without intention in individual acts of exchange (as Habermas stressed), as a tool of indirect political steering and as a political institution it very much reflected the deliberate intentions of central bankers. This alone should have raised questions whether money was not, on Habermas's own terms, more than a systemic medium.

What Habermas's treatment of money and reification brings into view then are the costs, or in any case pressure points, associated with framing these questions in terms of a differentiation between system and lifeworld. Thomas McCarthy, translator of *The Theory of Communicative Action*, put this concern most emphatically with regard to the evacuation of politics from the state and administrative agency.[174] As McCarthy pointed out, while the reach of the state and the economy into the lifeworld was considered latently pathological, the withdrawing of communicative reason into the lifeworld was take for granted and accepted as healthy.[175] Indeed, the two were in Habermas's account

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174 Thomas McCarthy, "Complexity and Democracy, or the Seducements of Systems Theory," *New German Critique, No. 35* 35 (Spring-Summer 1985), 27-53, 38. McCarthy wondered, "Is interaction within large administrative bureaucracies coordinated via functional interconnection of its effects rather than via the orientations of actors? Is it integrated like the market, via 'non-normative steering of subjectively uncoordinated individual decisions,' rather than via normative consensus?"

175 Johannes Berger, "The Linguistification of the Sacred and the Delinguistification of the Economy," in *Communicative Action: Essays on Jürgen Habermas's The Theory of Communicative Action*, ed. Axel Honneth and Hans Joas (Cambridge MA: The MIT Press, 1981), 179. When Habermas took stock of the responses to the *Theory of Communicative Action* in a new preface to the third edition in 1984, he brushed aside most critiques as either predictable or involving a misunderstanding that, at best, called for clarification on his part. But he singled out Berger as having hit an important point that had since been further compounded by the disinflationary struggles over the welfare state. As Habermas put it, "...the imperatives of the lifeworld cause themselves

related to one another as mirror images: if differentiation was the norm, de-differentiation either in the form of the monetization of the lifeworld or the politicization of the economy was pathological.[176] Haunted by the ghosts of command economies both in Germany's past as well as across the Iron Curtain, Habermas insisted on the need for a differentiated, quasi-depoliticized economy.

In the Preface to the *Theory of Communicative Action*, Habermas prominently explained that his worry about demands for de-differentiation was in this sense primarily addressed against those on the left who touted an "occasionally anti-modernist critique of growth, that is directed against the hypercomplexity [*Überkomplexität*] of economic and administrative action systems."[177] Equally worrying, albeit for different reasons, were neo-conservatives who insisted on the need to deepen differentiation even further by extracting the state from the economy and giving highest priority to economic growth while hoping to "muffle" the resulting side-effects of the intrusion of the market into the lifeworld by means of appeals to conservative traditionalism.[178] Where neoconservatives hoped to drown the effects of growth by rhetorically affirming cultural traditionalism, radical opposition on the left in the form of the emerging green movement and protest

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blockages in the capitalist economic system that strives to neutralize its environments." Jürgen Habermas, "Vorwort zur dritten Auflage," in *Theorie des kommunikativen Handelns*, ed. Jürgen Habermas (Frankfurt am Main: Suhrkamp, 1984), 3-6.

176 See the preface to the *Theory of Communicative Action* to which I will turn in a moment. Habermas, *Theory of Communicative Action, Vol. 1* [TCA 1], xli; Habermas, *Theorie des Kommunikativen Handelns*, Band 1 [TCA 1], 10.

177 Habermas, *Theory of Communicative Action, Vol. 1* [TCA 1], xli; Habermas, *Theorie des Kommunikativen Handelns*, Band 1 [TCA 1], 10.

178 As Habermas admitted, while the welfare state had long guaranteed growth, it now "increasingly also constricts" it. Habermas, *Theory of Communicative Action, Vol. 1* [TCA 1], xli; Habermas, *Theorie des Kommunikativen Handelns*, Band 1 [TCA 1], 10.

movements against the Cold War arms race called for de-differentiation. This was an intelligible response for which Habermas had some sympathy. But, as he insisted in his Preface, "when this opposition sharpens into a demand for de-differentiation [*Entdifferenzierung*] at whatever price, an important distinction is lost."[179] Instead of either neoconservative hyper-differentiation or left de-differentiation, Habermas hoped to preserve but restrict the complexity of the monetary-administrative system. This meant becoming aware of the system's cultural effects on the lifeworld while recognizing that communicative action was available even in structurally differentiated lifeworlds – indeed, in particular there.

But as McCarthy insisted in response, such worries notwithstanding, it was crucial that "the possibility of democratization as de-differentiation of economy and state not be metatheoretically ruled out of court."[180] McCarthy linked this worry to the influence of systems theory and Habermas's strategy of entering into "a pact of sorts" with systems theory whereby Habermas granted the systemic realm to systems theory on the condition that it keep entirely out of the lifeworld. But not only did this compromise risk reifying systems theory it also left Habermas in an unnecessarily defensive position.[181] If McCarthy worried that Habermas's tacit narrative of modern functional

179 Habermas, *Theory of Communicative Action, Vol. 1* [TCA 1], xlii; Habermas, *Theorie des Kommunikativen Handelns*, Band 1 [TCA 1], 10.

180 McCarthy, "Complexity and Democracy," 50. Daniel Bell similarly criticized Habermas for an overly static account of societal systems. Bell, *The Cultural Contradictions of Capitalism*, 249n24.

181 McCarthy, *Ideals and Illusions*, 153. McCarthy linked this worry to the influence of systems theory and Habermas's strategy of entering into "a pact of sorts" with systems theory whereby Habermas granted the systemic realm to systems theory on the condition that it keep entirely out of the lifeworld.

differentiation foreclosed the possibility of a politics of de-differentiation, this concern can be easily extended to the politics of money.[182]

Emerging from these critical observations, with which my critique of Habermas's account of money aligns, is an even more fundamental question concerning the conception of politics, and in particular transformative political agency, in Habermas's social theory. As the politics of money illustrates, Habermas ended up freezing a contingent process of political contestation and change into a structural necessity. Perceptive observation of the contours of social life and political pressures gave way to assessments of inevitability. Consider, for example, the way in which Habermas aptly described the appeal of resorting to monetary coordination on behalf of a strained lifeworld. But in portraying the economization of social life and depoliticization of economic life that set in during the late 1970s as a structural response to the cultural crisis of the lifeworld, Habermas downplayed and obscured the way in which the shift was politically-engineered and far from certain. This elevation of contingency to necessity turned a contested political process – such as the depoliticization of the economy and the

[182] As Nancy Fraser has similarly noted, the distinction between systems and lifeworld – and with it the attempt to recast reification in terms of a colonization of the lifeworld – depends on three rather doubtful assumptions. First, on Habermas's already questioned ability to distinguish between symbolic and material reproduction on functionalist grounds. Secondly, it depended on "the assumed virginity of the domestic sphere with respect to money and power," a premise persuasively challenged by feminists.[182] Third, it tacitly assumed that "the basic vector of motion" went from the monetary-administrative complex to the lifeworld and not vice versa, another assumption, Fraser explained, feminist thinkers have since questioned by pointing out that "even in late capitalism the norms and meanings of gender identity continue to channel the influence of the lifeworld onto systems." Nancy Fraser, "What's Critical about Critical Theory?," in *Feminism as Critique. On the Politics of Gender*, ed. Seyla Benhabib and Drucilla Cornell (Minneapolis: University of Minnesota Press, 1987), 51.

economization of social life – into a structural necessity or a rational response to systemic pressures.

Insofar as Habermas's social philosophy places progressive hopes on the social integrative forces of linguistic understanding and solidarity it has rightly been described as aspirational, even utopian. But when framed through the tacit delinguistification of the economy its abandonment of the economy as a potential site of communicative action can at the same time be seen as a defensive acceptance of the politics of depoliticization. As I have stressed in my reconstruction of Habermas's account of the relation between democratic politics and money, this theoretical delinguistification of the economy proved too abstract to capture actual political confrontations but insufficiently abstract to escape a misleading visualization as distinct spheres.[183] As Habermas flagged in several essays and interviews during the late 1970s, his two main worries at the time revolved around, first, the increasing juridification of the lifeworld by an interventionist administrative welfare state and, secondly, the effects of the politicization and de-differentiation of economic relations during the 1970s that had left him increasingly skeptical about the desirability of a politicized economy due to the increased demand for legitimation this would imply. The crisis of the welfare state had not yet been on his mind when formulating the *Theory of Communicative Action.* Instead, he had focused on how

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183 An elegant critique along these lines can also be found in Eva Illouz, *Cold Intimacies: The Making of Emotional Capitalism* (London: Polity Press, 2007). Habermas comes close to appreciating this aporia when he has to admit the existence of "domain-specific public spheres" within bureaucratic systems without, however, then spelling out the potentially wide-ranging theoretical implications of allowing for such localized areas of social integration within systems. On the communicative dimension of administrative law, see also Blake Emerson, *Between Public Law and Public Sphere: Reconstructing the American Progressive Theory of the Administrative State*. Diss. Yale University (New Haven CT, 2016).

distortions flowing from the system (and here Habermas was thinking more of the state than the economy) interfered with the lifeworld.[184] The possibility that the communicative imperatives of the lifeworld could in turn politicize the economic system was thus not an accidentally neglected possibility but precisely the worry Habermas had derived from the crisis experiences of the 1970s.

What Habermas's redirection of attention away from economic questions of distribution toward the cultural grammar of the lifeworld neglected was that the conditions of possibility for the flourishing of the lifeworld depended on a particular political-economic settlement that came to be hollowed out during the early 1980s at the very moment that Habermas published his social theory. Instead of stressing the ways in which in an age of fiat money central banks exercised enormous political agency, Habermas took the neoliberal disavowal of agency at face value and concluded that "the state apparatus becomes dependent upon the media-steered subsystem of the economy."[185] In accepting the delinguistification of money and in rendering money norm-free and beyond politics, Habermas's account aligned with the narrative of the Great Moderation and unwittingly immunized the new monetary constitution against critique.

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184 "The stabilization of internal conditions that has been achieved on the basis of a social-welfare-state compromise (particularly impressively, perhaps, in the Federal Republic of Germany) now exacts increasing sociopsychological and cultural costs." Habermas, *Theory of Communicative Action, Vol. 1* [TCA 1], xlii; Habermas, *Theorie des Kommunikativen Handelns*, Band 1 [TCA 1], 10.

185 Habermas, *Theory of Communicative Action, Vol. 2* [TCA 2], 171; Habermas, *Theorie des Kommunikativen Handelns*, Band 2 [TCA 2], 255.

In *Between Facts and Norms* (1992), Habermas largely affirmed his analysis but gave it a clarificatory twist with regard to law.[186] "Modern societies," he recounted, "are integrated not only socially through values, norms, and mutual understanding, but also systemically through markets and the administrative use of power. Money and administrative power are systemic mechanisms of societal integration that do not necessarily coordinate actions via the intentions of participants, but objectively, 'behind the backs' of participants."[187] To this reaffirmed account of the distinction between system and lifeworld Habermas now however added a subtle complication in the form of a more ambivalent account of law. Law, he explained contra Luhmann, "functions as a hinge between system and lifeworld, a function that is incompatible with the idea that the legal system, withdrawing into its own shell, autopoietically encapsulates itself."[188] This shift in emphasis carved out a more complex account of the role of law as suspended between the lifeworld and the administrative system. It also introduced a subtle clarification concerning the implications of differentiation. While functionally cut-off from the lifeworld both the money-steered economy and the power-steered administration had developed out of the lifeworld and remained – through the linguistic normativity of the law – connected to it.[189] Although the economy could not withdraw entirely, money

186 Jürgen Habermas, *Between Facts and Norms. Contributions to a Discourse Theory of Law and Democracy*, trans. William Rehg (Cambridge MA: The MIT Press, 1996), see esp. 343 and 500-501.

187 Habermas, *Between Facts and Norms*, 39.

188 Habermas, *Between Facts and Norms*, 56.

189 Habermas, *Between Facts and Norms*, 41, 42. "Even the systemic integration achieved through money and power ought, in accordance with the constitutional self-understanding of the legal community, to remain dependent on the socially integrative process of civic self-determination. ... [N]ot even the systems steered by money and

was in systems-theoretic terms cut off from intersubjectivity and instead "autopoietically encapsulated itself" in a way that Habermas had explicitly rejected for legal discourse.

In insisting on the purely systemic character of money, Habermas refused to grant currency the kind of normative hybridity he afforded to law. Where law possessed a "peculiar dual position and mediating function," suspended between systemic facticity and communicative normativity, money remained resolutely and unambiguously norm-free.[190] Instead of fulfilling a bridging function between normativity and facticity, money continued to be rigorously categorized on the systemic side of the equation. While law was able to inject normativity into the systemic realm, money "wears down ordinary language – as the functional systems do the lifeworld."[191] The possibility that currency could also have a malleable political dimension determined by political struggles was thereby ruled out.

Habermas was far from alone at the time in re-framing money as somehow outside of politics. Where the contestations and politicizations of monetary relations during the 1970s had served as a reminder of their political nature, the anti-inflationary turn since the late 1970s (and in West Germany already since the mid-1970s[192]) rendered

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administrative power may withdraw entirely from a more or less consciously achieved social integration."

190 Habermas, *Between Facts and Norms*, 56; Jürgen Habermas, *Faktizität und Geltung. Beiträge zur Diskurstheorie des Rechts und des demokratischen Rechtsstaats* (Frankfurt am Main: Suhrkamp, 1998), 77-78.

191 Habermas, *Between Facts and Norms*, 343; as well as 500-501; Habermas, *Faktizität und Geltung*, 417, as well as 643.

192 In this sense, the context in which Habermas wrote anticipated the turn that was to come in a wildly more destructive form elsewhere. While the disinflationary depoliticization of the economy is usually dated to the early 1980s in the US and Britain, the Bundesbank had pursuit a sustained strategy of depoliticizing economic relations since the mid-1970s. Its final victory over the Schmidt government in 1981 coincided

plausible the idea that money was a mere tool of economic power. Its contested political foundations had become once more invisible. Consider, for example, the way in which Michael Walzer began to conceive of the economy as a separate sphere from the late 1970s onwards.[193] The contextualist separation of social justice into distinct spheres meant that money could and should be contained to its proper sphere of the economy. This implied both that politics had to be protected from the power of money, but also – on the flipside – that money had to be protected from state power.[194]

While this framing of separation aligns with appealing critiques of corruption and commodification, its rarely considered inverse implication is that an articulation of the politics of money was intentionally ruled out. Liberalism's latent tendency to conceive of economic relations outside of politics, as well as its attendant anxieties about the moral and civic disruption of money, have long tended to marginalize and partially obscure arguments about the political nature of money. The politics of monetary depoliticization since the late 1970s further strengthened this tendency by rendering it plausible as an assessment and leaving any critique linger as a mere counter-factual.

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with initial highpoint of struggles over politicization and depoliticization in most other OECD countries.

193 Michael Walzer, *Spheres Of Justice: A Defense Of Pluralism And Equality* (New York: Basic Books, 1983). On Walzer's intellectual development, see also Rodgers, *Age of Fracture*, 193-198. The art of separation, Walzer explained, was a core characteristic of liberalism. Michael Walzer, "Liberalism and the Art of Separation," *Political Theory* 12, no. 3 (Aug., 1984), 315-30.

194 The intuition behind this point – that there are things money cannot buy – has since produced a vast literature on commodification. Walzer found inspiration for his argument in Marx's early critique of the commodification of love in the *Paris Manuscripts*. But where Marx had rejected the separation between politics and economics, the point of Walzer's new liberalism was on the contrary "to endorse and extend it, to enlist liberal artfulness in the service of socialism." What mattered was simply getting the lines right. Walzer, *Spheres Of Justice*, 18. Karl Marx, "Economic and Philosophical Manuscripts" [1844], in *Marx-Engels Collected Works*, Vol. 3, 325.

5.7. Conclusion

Retrospectively, Habermas had to admit that he and many others had underestimated the transformative power of the politics of disinflation and overestimated the resilience of the welfare state.[195] By the mid-1990s, Habermas was forced to take stock of the manifold ways in which the state's autonomy and its capacity for economic interventions had been curtailed since the 1970s. "The transformation and reduction of the social welfare state," he summarized in 1998, "is the direct consequence of supply-side economic policies – anti-inflationary monetary and fiscal policies, the reduction of direct taxation, the transfer of state-owned enterprises into the private sector, and so on – aimed at deregulating markets, reducing subsidies, and creating a more favorable investment climate."[196] Where he had initially been slow to detect the scope of the

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[195] In response to his recent critic Wolfgang Streeck, Habermas readily conceded "the historical wisdom of the retrospective observer." He had indeed remained too complacent for too long in sharing a "Keynesian steering optimism" that "led us to assume that the potential for crises would *shift away* from economic crises, which we thought politics would control, toward contradictory demands made to an increasingly swamped state, resulting in 'cultural contradictions of capitalism' (as Daniel Bell put it a few years later), and expressing itself in legitimation crises." Habermas, "Demokratie oder Kapitalismus?," 59. Fritz Scharpf similarly retrospectively confessed that "it was not fully realized at the time … how much the success of market-correcting policies did in fact depend on the capacity of the territorial state to control its economic boundaries." Fritz W. Scharpf, "Negative and Positive Integration in the Political Economy of European Welfare State," in *Governance in the European Union*, ed. Gary Marks, et al. (London: SAGE Publications, 1996), 16.

[196] Jürgen Habermas, "Learning from Catastrophe? A Look Back at the Short Twentieth Century [1998]," in *The Postnational Constellation. Political Essays, translated, edited and with an introduction by Max Pensky*, ed. Max Pensky (Cambridge MA: The MIT Press, 2001), 50. As he put it elsewhere, "After this system [Bretton Woods S.E.] was abandoned in the early 1970s, an entirely different system of 'transnational liberalism' emerged. Since then global markets have progressively

changes under way, he has since been forced to concede ever more ground. Habermas increasingly found himself entangled in the "new obscurity" brought about by the crisis of the welfare state.[197] What had looked to him initially like a temporary hiccup had become a permanent state of crisis that remade the compromise between democracy and capitalism.[198] This new obscurity meant, as Ulrich Beck observed at the time, nothing less than "a profound systemic transformation of the political."[199]

Habermas's neglect of the politics of money is a telling illustration of his initial complacency concerning the effect of this transformation. Already during the 1960s and 1970s, Habermas drew on a narrative of functional differentiation between politics and the economy that left the politics of money in a somewhat uncomfortable position. In his mature social theory, he then tightened his distinction between interactions based on speech and money. Only linguistic exchange had normative charge. Money, by contrast, was "norm-free." Furthermore, while law was able to transgress and bridge the divide between facticity and normativity, monetary policy disappeared on this account as a

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liberalized, capital mobility has accelerated, and industrial mass production has shifted to meet the needs of 'post-Fordist flexibility'. Increasingly globalized markets have clearly worked to the disadvantage of the state's autonomy and its capacity for economic interventions. At the same time, multinational corporations have emerged as powerful competitors to nation-states." Habermas, "The Postnational Constellation and the Future of Democracy," 78.

197 Jürgen Habermas, "Die Krise des Wohlfahrtsstaates und die Erschöpfung utopischer Energien," in *Zeitdiagnosen. Zwölf Essays 1980-2001* (Frankfurt am Main: Suhrkamp, 2003), 35; Jürgen Habermas, "The New Obscurity: The Crisis of the Welfare State and the Exhaustion of Utopian Energies," *Philosophy & Social Criticism* 11 (January 1986), 5.

198 Jürgen Habermas, "Interview mit Hans Peter Krüger [1989]," in *Die Nachholende Revolution* (Frankfurt am Main: Suhrkamp, 1990), 86.

199 Beck, *Risk Society*, 190. "The concepts, foundations and instruments of politics (and non-politics) are becoming unclear, open and in need of a historically new determination." (191)

meaningful form of political agency or a potential arena for normative critique. As I have argued, it was precisely the depoliticization of money in the name of disinflation since the late 1970s that indirectly licensed Habermas and others to place money outside of politics – or that in any case prevented readers from questioning this portrayal.

But if the eventual effects of the politics of disinflation were difficult to imagine at the time, we should not make the opposite mistake and conclude that they were structurally inevitable. Instead, as Beck has perceptively put it, "not the failures of politics but its successes have led to the loss of state intervention power and to the delocalization of politics."[200] It was a specific *politics* of depoliticization that instituted policies designed to give the appearance of a spontaneous, depoliticized economic realm and that ended up heavily curtailing the ability of states to intervene in economic relations.[201] If the state was previously constrained by having to satisfy multiplying demands of legitimacy, the escape from the impasse of legitimacy has not freed up economic policy but chained it to a different master. Where the 1970s had been characterized by anxieties over legitimacy and ungovernability, by the 1990s the political bonds of legitimacy had been replaced by the fetters of investor "credibility."

It was furthermore less the ability of states to interfere with economic matters that Habermas overestimated than their willingness to do so. To be sure, the politicians of disinflation and discipline were quick to point to seeming instances of the state's shrinking power in the face of globalization. But there are good reasons not to take such

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200 Beck, *Risk Society*, 191.

201 If this is true domestically it applies on an even larger scale internationally, as the stealth crisis management of 2008 has shown. The most significant measures were simply too breathtaking even to be conveyed to the public. See Adam Tooze, "How to mishandle a crisis," *New Left Review* 92 (March-April 2015), 135-43, here: 142-143.

claims at face value. The fact that the political importance of monetary policy has only grown as the state has tied its hands illustrates this tension powerfully. During the Financial Crisis, the same voices that previously painted the state as increasingly constrained and powerless suddenly counted on the ability of states to intervene in economic relations. They were not disappointed. The reason so few could envisage during the 1970s that inflation would trigger a wholesale political revolution of disinflation was not because they did not view money as a political question but precisely because they did: they were only too aware of the enormous political distributional strife it embodied. If what is most striking today about the inflation literature of the 1970s is its failure to anticipate the transformation that lay ahead, our ability to forget about the politics of money is no less striking. We tend to lose sight of how miraculous the depoliticization of money would have appeared to most observers in the 1970s. Instead, the politics of anti-inflation and depoliticization has reshaped our political imagination so comprehensively as to become invisible.

Today, having witnessed the global financial system on the brink of implosion and the political project of Europe torn up by the monetary fault lines of the Eurocrisis, it is once more possible to appreciate the impossibility of escaping the politics of money. As the politics of monetary depoliticization garnered successes it began to consolidate its narrative of neutrality and inevitability. This meant first and foremost offering a narrative of naturalization and depoliticization that could insulate economic decisions against the pressures of distributive legitimacy. Despite the devastation caused by the disinflationary increase in interest rates during the 1980s, the promises of financial liberalization eased the pressures of redistribution. According to the narrative of the Great Moderation, financialization offered a way out of the distributive legitimacy dilemma of the 1970s. A "goldilocks" economy of financial liberalization would be able to provide both low inflation and growth. This optimistic assessment proved pre-mature. Financialization was ultimately unable to hide the gradual erosion of economic gains for all but the top percentiles of the income distribution over the past three decades. In calm times it had been possible to reduce money to a seemingly neutral means of economic exchange. During the Financial Crisis it became exponentially harder to disguise the poietic nature of fiat money and the political possibilities inherent in it. As the veil falls from our eyes, currency emerges once more as a construct of our collective imagination, not entirely immune to questions of justice and justification.

– Conclusion –

Faust
Who are you, then?

Mephistopheles
Part of that power, not understood,
which always wills bad,
and always works good.

Two Utopias

On December 11, 1974, Friedrich August Hayek stepped up to the lectern in Stockholm to deliver his Nobel Memorial Lecture. As Hayek announced in his opening lines, the current experience of inflation across the Western world was "the chief practical problem which economists have to face today."[1] It had made the choice of topic easy, indeed almost inevitable. "Economists," Hayek explained, "are at this moment called upon to say how to extricate the free world from the serious threat of accelerating inflation." But they were failing. As a profession, "we have made a mess of things." Blaming the inflation of the 1970s on economists' epistemological hubris, in the rest of the lecture Hayek developed a challenge to the Keynesian steering of national welfarism.

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1 Friedrich August Hayek, "The Pretence of Knowledge," *Lecture to the Memory of Alfred Nobel*, December 11, 1974. Reprinted as "The Pretence of Knowledge," in Friedrich August Hayek, *New Studies in Philosophy, Politics, Economics and the History of Ideas* (Chicago and London: University of Chicago Press and Routledge & Kegan Paul, 1978), 23-34; here: 23.

Spurred on by the inflation of the 1970s and utilizing the prestige of the Nobel Prize, Hayek returned to his monetary writings from the interwar period and updated them with startlingly radicalized conclusions. As he declared in 1975 in a lecture at a London-based free market think tank, "the cause of waves of unemployment is not 'capitalism' but governments denying enterprise the right to produce good money."[2] Economic crisis and inflation were a result of "the exclusion of the most important regulator of the market mechanism, money, from itself being regulated by the market process."[3] The lecture, soon expanded into a pamphlet and published as *The Denationalization of Money*, entered wide circulation on the back of Hayek's Nobel fame. Given the inflation shock of the 1970s, the time had now come to eliminate the government monopoly of money and fully privatize its issuance. No government with direct control over money could ever be trusted not to abuse it. While Hayek blamed the inflationary malaise on Keynes's influence specifically, his critique now extended to the political control over money more generally.[4] Money, Hayek insisted, was simply too dangerous an instrument to be left to the state and the "fortuitous expediency" of

2 Friedrich August Hayek, *Denationalisation of Money*, Hobart Papers Special 70 (London: The Institute of Economic Affairs, October 1976). Enlarged version reprinted as Friedrich August Hayek, "The Denationalization of Money: An Analysis of the Theory and Praxis of Concurrent Currencies [1978]," in *Good Money, Part II*, ed. Stephen Kresge, The Collected Works of F.A. Hayek, Vol. 6 (Indianapolis: Liberty Fund, 1999), 128-229.

3 Hayek, "The Denationalization of Money," 202.

4 Others, though sympathetic to Hayek's conclusions, were nonetheless more careful to distinguish between Keynes and postwar Keynesianism. See, for example, James M. Buchanan and Richard E. Wagner, *Democracy in Deficit: The Political Legacy of Lord Keynes [1977]*, The Collected Works of James M. Buchanan, Vol. 8 (Indianapolis: Liberty Fund, 2000), 53.

politicians or indeed economists. "Our only hope for a stable money," he exclaimed, "is indeed now to find a way to protect money from politics."[5]

Over the subsequent years, as inflation soared once more to more than ten percent in the US and more than twenty percent in Britain, Hayek dedicated himself to spreading the gospel.[6] As he explained in 1979, the deprivation of governments of their monopolistic control of money was the only "possible escape from the fate which threatens us."[7] Left unchecked, inflation will "lead to the destruction of our civilization."[8] His call for the privatization of the monetary order dovetailed in this regard with his other constitutional recommendations, including a proposal to raise the voting age for a second legislative chamber to forty-five.[9] As Hayek stressed, "my radical proposal concerning money will probably be practicable only as part of a much more far-reaching change in our political institutions, but an essential part of such a reform which will be recognized as necessary before long."[10] Both parts were necessary "if we are to escape the nightmare of increasingly totalitarian powers."[11]

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5 Hayek, "Choice in Currency," 120; 125.

6 His argument was appropriately summarized on the back cover of *The Denationalization of Money* in the form of Ten Theses.

7 Friedrich August Hayek, "Preface," in Friedrich August Hayek, *Law, Legislation and Liberty, Volume 3: The Political Order of a Free People* (Chicago: The University of Chicago Press, 1979), xiii-xiv.

8 Hayek, "The Denationalization of Money," 186.

9 Hayek, *Law, Legislation and Liberty, Vol. 3*, 113.

10 Hayek, "The Denationalization of Money," 186.

11 Friedrich August Hayek, "Consolidated Preface," in *Law, Legislation and Liberty. A New Statement of the Liberal Principles of Justice and Political Economy, Volumes 1-3* (London: Routledge & Kegan Paul, 1982), xx.

Hayek had not been the sole recipient of the Nobel Prize in Economics in 1974. In the heated political climate of the early 1970s, the Swedish Academy of Sciences instead jointly awarded the 1974 Prize to Hayek and the Swedish economist Gunnar Myrdal for their "pioneering work in the theory of money" as well as their "penetrating analysis" of the interdependence of economic, social and institutional phenomena.[12] Two radically divergent visions of money were on offer. When giving his own Nobel Lecture, Myrdal agreed with Hayek about the constraints of national welfarism and the pressing global situation of crisis.[13] But instead of veering toward a vision of competing private currencies in world of liberalized global trade, Myrdal proposed an internationalization of the postwar welfare state.[14]

Decolonization posed a profound challenge to the unequal welfarist settlement of the postwar world. As Myrdal reminded his audience in Stockholm, "the underdeveloped countries are therefore now proclaiming the necessity of not only increased aid but fundamental changes of international economic relations. By their majority votes they can in the United Nations carry resolutions like the Declaration on the Establishment of a New International Economic Order."[15] In aligning himself with the demands of the

[12] "The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 1974." Available online: http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/1974.

[13] Gunnar Myrdal, "The Equality Issue in World Development," *Lecture to the Memory of Alfred Nobel*, March 1975.

[14] Adom Getachew, *The Rise and Fall of Self-Determination: Towards a History of Anti-Colonial World-Making*, Ph.D. diss. Yale University (New Haven CT, 2010). See also his earlier Gunnar Myrdal, *Beyond the Welfare State: Economic Planning and its International Implications* (New Haven: Yale University Press, 1960).

[15] Myrdal, "The Equality Issue in World Development." For the NIEO resultion, see "Declaration on the Establishment of a New International Economic Order," Resolution adopted by the United Nations General Assembly, A/RES/S-6/3201 (May 1, 1974).

NIEO, which had successfully passed its UN resolution in May 1974, Myrdal insisted that "what the poor masses need is not a little money [but] fundamental changes in the conditions under which they are living and working." The present calamitous situation in the world – and here Myrdal was thinking as much of famines as of inflation – posed a fundamental moral problem that required a comprehensive political reform of the international economic and monetary system.

In 1980, as Hayek was on the lecture circuit promoting his vision of a world of only private monies, a coalition more to Myrdal's liking was gathering in the sprawling Tanzanian city of Arusha. Instigated by the President of Tanzania Julius Nyerere and the Jamaican Prime Minister Michael Manley, the South-North Conference on "The International Monetary System and the New International Order" met in the vast Arusha International Conference Center from June 30 to July 3, 1980 to discuss the future of the international monetary system.[16] While the NIEO had burst onto the international scene in the immediate wake of the collapse of the Bretton Woods system, it had in many ways still been an outgrowth of the anti-colonial trade struggles of the 1950s and 1960s.[17] Though it made references to the need for monetary reform, these were fleeting. By the end of the 1970s, however, the monetary dimension had fully asserted itself internationally. As the experience of peacetime inflation traumatized most OECD countries, the Global South had been hit even harder and in the case of Jamaica and

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16 The proceedings were published as "The Arusha Initiative. A Call for a United Nations Conference on International Money and Finance," *Development Dialogue (Uppsala)* 2 (1980). The Swedish Dag Hammarskjöld Foundation had partially helped to fund the gathering.

17 See Adom Getachew, *The Rise and Fall of Self-Determination*, ch. 5; as well as the special NIEO issue of *Humanity: An International Journal of Human Rights, Humanitarianism, and Development*, Volume 6, Number 1 (Spring 2015). In his contribution, Bret Benjamin describes the NIEO as the "bookend to Bandung," 33-46.

Tanzania had just gotten a first taste of the International Monetary Fund's "structural adjustment" policies.

Within sight of Mount Kilimanjaro, the Arusha conference was in this context meant both as an expression of solidarity with Jamaica and Tanzania as well as a call for a UN conference on international monetary reform.[18] Confronted with the technocratic imperatives of the IMF, the participants pointed instead to the inescapable politics of money. "Money is power," declared the signatories of the resulting Arusha Initiative. "Those who wield power control money. Those who manage and control money wield power. An international monetary system is both a function and an instrument of prevailing power structures."[19] As the Arusha Statement pointed out, while the stabilizing elements of the Bretton Woods order had collapsed in the course of the 1970s, the IMF and the World Bank remained standing and continued to reflect the power balances of an international order in which the majority of Third World countries had not yet existed.[20] While the UN General Assembly had since been enlarged, the IMF continued to resemble a hierarchical world more akin to the Security Council. Although the Third World counted close to one hundred countries that included more than two thirds of the world's population its cumulative voting share at the IMF amounted to no more than 35 percent and thus less than the 40 percent of the five leading industrial powers alone.

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18 Vijay Prashad, *The Darker Nations: A People's History of the Third World* (New York: The New Press, 2007), 191. For the Fund's perspective on the Arusha Initiative, see Jim Boughton, *Silent Revolution: The International Monetary Fund 1979-1989* (Washington, D.C.: International Monetary Fond, 2001), 588-601.

19 "The Arusha Initiative," 12.

20 "The Arusha Initiative," 12.

Even worse, in the course of the 1970s, as the United States abandoned the embedded multilateralism of the postwar period for unilateralism, the IMF had in fact become even more beholden to the G7 than ever before. As the Third World countries had declared the previous fall when meeting in Jamaica in October 1979, "the IMF, acting on behalf of the major industrialized capitalist countries, has assumed a growing role as a financial and economic policeman in Third World countries."[21] In addition to the previous political imbalances of the Bretton Woods system, during the 1970s a new tendency had "emerged for the Fund to exercise a major influence on the process of internal decision-making in a number of the Third World countries."[22] The collapse of the Bretton Woods system, imperfect as it had been, had left behind an ad hoc non-system that coupled an evasion of responsibilities to a heightened opportunism. The dollar's dual role as both the domestic currency of the United States as well as the international reserve (and shadow banking) currency of choice had already marked the postwar period.[23] The collapse of Bretton Woods had not ended this "exorbitant privilege" but informalized it

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[21] As cited in Prashad, *Darker Nations*, 66. "The Terra Nova Statement on the International Monetary System and the Third World," Terra Nova Hotel, Kingston, Jamaica, October 5-7, 1979, *Development Dialogue*, 1 (1980). In February 1979, the Preparatory Committee for the Fourth Ministerial Meeting of the Group of 77 had also met in Arusha. See Jorge Lozoya and A.K. Bhattacharya, *The Financial Issues of the New International Economic Order*, UNITAR-CEESTEM NIEO Library (New York: Pergamon Press, 1980).

[22] "The Terra Nova Statement on the International Monetary System and the Third World," *Development Dialogue*, no. 1 (1980), 2.

[23] As Keynes had witnessed himself, American power was not just reflected in the Fund's voting shares and location but in particular in the decision to base the postwar financial architecture on the dollar instead of a new international currency.

and lifted most obligations previously associated with it.[24] Given the growing destabilizing effect of largely unregulated flows of so-called "Eurodollars" under conditions of floating exchange rates and increasing capital mobility, the dollar's mark on the rest of the world was deepened in unpredictable ways.[25]

The Arusha Initiative's emphasis on the international monetary system's burden of hierarchical imbalances was in this light both an insistence on money's political nature and an attempt to counter claims to neutral technical expertise asserted by the Fund's "money doctors." The IMF, the Arusha signatories explained, "claims to have a 'scientific' basis for these policies and to be an objective and neutral institution charged with the 'technical' function of 'helping' countries to overcome their financial difficulties."[26] But all available scholarly evidence, including the Fund's own internal documentation (which Nyerere had leaked to the international press), pointed the other way.[27] The IMF was neither purely scientific, nor neutral. Instead, it systematically applied double standards to otherwise similar situations and was deeply ideological in the way it framed underdevelopment as a lack of private markets. In reducing the international politics of money to seemingly scientific theories of underdevelopment and

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24 Barry Eichengreen, *Exorbitant Privilege. The Rise and Fall of the Dollar* (Oxford: Oxford University Press, 2011). See also Benjamin J. Cohen, *Currency Power: Understanding Monetary Rivalry* (Princeton: Princeton University Press, 2015).

25 As Harold James has shown, early attempts to form a European monetary system during the late 1970s originate in this sense of collective vulnerability toward the swings of the dollar and US monetary policy. See Harold James, *Making the European Monetary Union* (Cambridge MA: Harvard University Press, 2012), 9-10, 146-180. On "eurodollars," see Jeffry A. Frieden, *Banking on the World: The Politics of American International Finance* (New York: Harper and Row, 1987), ch. 4.

26 "The Arusha Initiative," 12-13.

27 On the leaks, see Boughton, *Silent Revolution*, 600.

domestic structural reforms, the IMF was a depoliticization machine.[28] Its denial of the political nature of money was the capstone of these efforts. But as the Arusha Statement declared perceptively, precisely in denying the politics of money the IMF "has proved to be a basically political institution."[29]

The IMF's efforts to the contrary notwithstanding, the "present monetary non-system" was "man-made and can consequently be redressed by political decisiveness and action."[30] The monetary disorder of the 1970s was neither inevitable nor accidental. What was needed was consequently not technical fixes and domestic programs to adjust to the new logic of discipline but a political reform of the international monetary constitution. The abrogation of political agency in international monetary matters was in this regard an embarrassment to human rationality and ingenuity. The only viable response against this now was for money to "be demystified and exposed to public debate and scrutiny."[31] The necessary political decisions would have to be taken "by governments acting in a collective and democratic manner."[32] Unlike the redistributive commodity confrontation of the NIEO, it was furthermore not clear that international monetary reform was a zero sum game. After all, South and North both had an interest in creating a truly stable international monetary system that would be better equipped to address the issue of inflation. The Arusha Declaration ended in this spirit by urging "the governments of East

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28 James Ferguson, *The Anti-Politics Machine: "Development," Depoliticization, and Bureaucratic Power in Lesotho* (Minneapolis and London: University of Minnesota Press, 1994).

29 "The Arusha Initiative," 14.

30 "The Arusha Initiative," 15-16, 21-22.

31 "The Arusha Initiative," 21.

32 "The Arusha Initiative," 11.

and West to pursue together their common interest in a universal and democratic monetary system."[33]

Both Hayek and the Arusha Initiative detected political forces behind the ad hoc international monetary order of the 1970s. But their respective conceptions and assessments of the politics of money could hardly have diverged more strongly. Where Hayek saw states abusing their monetary monopoly to create inflation, the signatories in Arusha saw developed countries bending the post-Bretton Woods monetary order in their interest. Hayek's call for the removal of money from politics thus found its exact counterpart in the Arusha Initiative's attempt to raise an awareness of money's political purpose.[34]

Global Money

In the end, both Hayek's vision of competing private currencies and the Arusha vision of a post-colonial international monetary constitution were disappointed. It was nonetheless Hayek who had the last laugh. What won the day was a continuation of the ad hoc system of informal American global money and floating fiat currencies but now operated by the semi-depoliticized, technocratic rule of experts in formally independent

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33 "The Arusha Initiative," 21-22.

34 For a recent account of what it might mean to develop "just monetary arrangements" that fairly apportion burdens and benefits, see Sanjay G. Reddy, "Just International Monetary Arrangements," in *Global Institutions and Responsibilities*, ed. Christian Barry and Thomas W. Pogge (Malden: Blackwell, 2005), 218-234. First published as Sanjay G. Reddy, "Developing Just Monetary Arrangements," *Ethics and International Affairs* 17, no. 1 (2003), 81-93. See also his Sanjay G. Reddy, "International Debt: The Constructive Implications of Some Moral Mathematics," *Ethics and International Affairs, Volume 21* 21, no. 1 (2007), 81-98.

central banks. Few observers during the 1970s would have expected this development. States were nominally left in control of currencies but abrogated many of their political responsibilities. This was not Hayek's vision of pure private money. But it approximated his goal since it depoliticized economic relations, ensured prize stability, and enforced economic discipline. The new system was furthermore complemented by an unprecedented level of private credit money in the form of new financial instruments that circled the globe often beyond the direct reach of governments. If the system imposed constraints on collective bargaining and real wage growth, the taps of consumer credit were opened to muffle the immediate pain. The international monetary order that arose out of the 1970s had thus taken the Arusha Statement's insistence on money's political nature seriously but derived from it Hayek's objectives of discipline and price stability. The age of floating national fiat currencies unexpectedly produced a new politics of monetary depoliticization. To Hayek's surprise, the lesson of the 1970s thus illustrated the unexpected way in which a self-reflexive modernity could end up defining itself in a foreclosure of its own agency. For better or worse, democracies turned out to be remarkably able and willing to bind themselves. If the collapse of Bretton Woods had repoliticized money, one expression of the politics of money consisted in its own disavowal.[35]

Though unexpected, this was arguably the scenario closest to the original hopes of the benefactor of the Nobel Prize Myrdal and Hayek had received in 1974. As is well

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[35] As David Grewal has put it, the experimentation with sovereign control over fiat money since the 1970s showed "that it is just as possible to manage its supply in order to *uphold* the scarcity-value of capital, as it would be to undermine it." David Singh Grewal, *Network Power: The Social Dynamics of Globalization* (New Haven: Yale University Press, 2008), 105.

known, unlike the other Nobel Prizes, the Nobel Memorial Prize in Economic Sciences was not endowed by Alfred Nobel but only established in 1969. What is less well known, is that the Prize was created by the Swedish central bank (the *Sveriges Riksbank*) and that the donation occurred in the context of the *Riksbank* striving to acquire greater independence from political oversight and democratic accountability.[36] Confronted with disputes over political interference, since the late 1960s the Swedish central bank sought to claim a mantle of scientific credibility that could be seen to transcend politics. The Nobel Memorial Prize in Economic Sciences was itself an indirect outgrowth of this attempt to render invisible the political dimension of money in the form of the *Riksbank*'s efforts to validate the apolitical appearance of its monetary policy.

Both Myrdal and Hayek were deeply aware of the peculiarly political act the Prize constituted and at slight unease about it. In his Banquet speech the night before his lecture, Hayek even counseled the Queen and King of Sweden against awarding the very Prize he had just received. A Nobel Prize in economics, Hayek feared, risked conferring on an individual "an authority which in economics no man ought to possess." This was not because economics failed to live up to the scientific standard of the hard sciences but because "the influence of the economist that mainly matters is an influence over laymen: politicians, journalists, civil servants and the public generally. … I am not sure that it is desirable to strengthen the influence of a few individual economists by such a ceremonial

[36] Philip Mirowski, "Why Is There a Nobel Memorial Prize in Economics?" *Institute for New Economic Thinking* (INET). See also Avner Offer and Gabriel Söderberg, *The Nobel Factor: The Prize in Economics, Social Democracy, and the Market Turn* (Princeton: Princeton University Press, 2016), as well as Mark Blyth, "The Transformation of the Swedish Model: Economic Ideas, Distributional Conflict, and Institutional Change," *World Politics* 54, no. 1 (October 2001), 1-26.

and eye-catching recognition of achievements."[37] Myrdal agreed with Hayek's conclusion, albeit for slightly different reasons. He certainly came to doubt the strength of character of at least one subsequent recipient. When the 1976 Prize was controversially awarded to Milton Friedman, Myrdal penned an open letter and called for an end to the Prize.[38] Since economics was not a natural but a social science, Myrdal explained, a prestigious award such as the Nobel Prize inevitably constituted a political act plotted under "draconian rules of secrecy" by the Swedish Academy of Science. Bringing up his own Prize, Myrdal admitted that "as I have now come to see the problem of whether there should be a Nobel Prize in economic science – in former times rightly called 'political economy' – I should have declined to receive it."[39]

With the successful assertion of a newly depoliticized appearance of money since the early 1980s, Myrdal's call for a welfare world and Third World demands for international monetary reform faded from view.[40] As I traced in Chapter 5, the depoliticization of money during the 1980s and 1990s left its imprint also in political

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[37] Friedrich August Hayek, "Speech at the Nobel Banquet," (December 10, 1974). The Prize certainly elevated Hayek's profile. As Milton Friedman commented retrospectively, if Hayek "was to some extent brought back from obscurity during the early 1970s … [i]t was because of the Nobel Prize entirely." Alan Ebenstein, *Friedrich Hayek: A Biography* (New York: St. Martin's Press, 2001), 385n6, see also 261.

[38] Gunnar Myrdal, "Nobelpriset i ekonomi," *Dagens Nyheter* (December 14, 1976). Translated into English as Gunnar Myrdal, "The Nobel Prize in Economic Science," *Challenge* (March-April 1977), 50-52. See also Leonard Silk, "Nobel Award in Economics: Should Prize Be Abolished?," *The New York Times* (May 31, 1977).

[39] Myrdal, "The Nobel Prize in Economic Science," 52. Unfortunately, Myrdal added, "the message reached me very early one morning in New York, when I was totally off my guard."

[40] Hayek himself, pleased with the depoliticization of the 1980s, similarly put aside his monetary activism and focused instead on his final attack on socialism. Friedrich August Hayek, *The Fatal Conceit: The Errors of Socialism*, ed. W. W. Bartley III, The Collected Works of F. A. Hayek (Chicago: The University of Chicago Press, 1988).

theory in the form of a profound neglect of the politics of money. Where inflation and the politics of money had dominated the immediate post-Bretton Woods years, as money was once more reduced to a purely economic medium best left to the technocratic administrative rule during the 1980s, the politics of money disappeared from political theory's field of vision. The depoliticization of money and the resulting disentanglement of politics and economics now made plausible again accounts of justice that, as in Michael Walzer's case, rigorously separated between an economic sphere and a political one. The politics of money always fitted ill with this separation. This was instead the context in which political theory turned to accounts of commodification that were now re-cast as infractions of the separation between depoliticized money and politics. The idea that money could itself be a political tool for justice was alien to this line of thought.

The Crisis

Until the Financial Crisis of 2008-2009, the contours and implications of the depoliticized anti-inflationary system that had unexpectedly emerged out of the 1970s were rarely questioned. Low inflation rates, enforced by independent central banks, were instead hailed as having paved the way to the Goldilocks economy of the "Great Moderation."[41] But as the world's central banks and treasuries had to step into the breach to undertake sprawling rescue actions to prevent an imminent collapse of the global financial system, two myths rapidly unraveled. Most immediately, the Crisis revealed the widely held belief of money as neutral and somehow outside of politics as an illusion.

41 Ben S. Bernanke, "The Great Moderation," Remarks by Governor Ben S. Bernanke at the meetings of the Eastern Economic Association, Washington D. C., (February 20, 2004).

While the appearance of money had been naturalized during the Great Moderation as a depoliticized tool of scarcity, it was now revealed once more as fickle and malleable. The state, seemingly obsolete before the Crisis, had to backstop the financial system by socializing its losses. In the European context, where the vision of depoliticized money had paved the way for deeper integration in the form of a currency union without matching political mechanisms of adjustment, the Eurocrisis revealed the apolitical design of the Euro and policy makers' refusal to politically restructure debts as a tragic flaw that pitted nations against each other instead of bringing them closer together.[42]

But if money turned out to be more political than many had come to assume, the crisis also rapidly undermined any presumption that money was still straightforwardly privy to the sovereignty of states and accountable to politics. In the terminology of this dissertation, currency had in large parts been replaced by private global money. As central banks sought to exercise control over the money supply and the credit system they saw themselves confronted with a vast and arcane global financial structure that was at least in part beyond their control. Since the late 1970s economic globalization and the international integration of financial markets have severely constrained formal state competencies in monetary and financial matters and led, as scholars of International

42 What allowed for the foundational Maastricht compromise to emerge was in this sense an odd overlap of interests between those seeking to institutionalize a European-wide depoliticization of money and those hoping that a European currency would act as the ultimate guarantee for further political integration. For a reading of the Eurocrisis that blames not structural causes but crisis management and, in particular, the unwillingness to restructure debt, see Martin Sandbu, *Europe's Orphan: The Future of the Euro and the Politics of Debt* (Princeton: Princeton University Press, 2015).

Political Economy have traced, to a "deterritorialization" of money.[43] Where the literature of the 1970s had offered state-centric analyses of power,[44] the same scholars have since sketched market-centric accounts of globalization and financialization.[45] If the crisis thus revealed money to be inescapably political, politics found itself at the same time shortchanged in its ability to govern the new money. It had of course been states themselves that had tied themselves to the mast of monetary depoliticization in the hope of deflecting responsibility from the painful disinflationary economic choices of the late 1970s and early 1980s. But in the Financial Crisis, as states sought to loosen these bonds in order to regain their agency, they found themselves as an Odysseus whose crew now refused to untie him. In the Eurozone, the realization of money's political dimension was similarly accompanied by states coming to the painful realization that the tools of monetary policy were no longer available to them when they needed them most while the European Central Bank proved inept in fully living up to its new responsibilities.

Despite these constraints, central banks acted swiftly and enacted historically unprecedented rescue measures that ranged from bailing out financial institutions to extending vast international swap lines to favored central banks around the world. This new assertion of political agency left central banks in a perilous position. As Adam Tooze has pointed out, it was always a telling contradiction of neoliberalism that its

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43 Claus Zimmermann, "The Concept of Monetary Sovereignty Revisited," *EJIL* (2013), 799-800. Benjamin J. Cohen, "The new geography of money," in *Global Monetary Governance* (Abingdon and New York: Routledge, 2008), 207-224.

44 Susan Strange, *Sterling and British Policy* (Oxford: Oxford University Press, 1971); Benjamin Cohen, *The Future of Sterling as an International Currency* (London: Macmillan 1971).

45 Susan Strange, *Mad Money: When Markets Outgrow Governments* (Ann Arbor: University of Michigan Press, 1998); Benjamin Cohen, *The Geography of Money* (Ithaca, NY: Cornell University Press, 1998).

emphasis on discipline was coupled to the elevation of a select group of central bankers to captains of global prosperity. "In the midst of an aestheticized, picket-fence vision of the economic order stand the 'maestros' of monetary policy."[46] Face with financial meltdown, the depoliticized rule-based model of neoliberal governance that had promised to disentangle politics and economics was revealed as hinging on the ability of experts with largely undefined mandates to directly intervene in the financial system. As a flipside of their increased importance, central banks now found themselves in the political limelight without being quite able to fess up to their own agency. Central banks have thus emerged from the crisis as "Keynesian ghosts in the neoliberal machine."[47] Central planners that dare not speak their name.[48] The recognition that central bankers could create money at will with the click of a proverbial button provoked starry-eyed amazement from those toiling under the weight of the recession and imposed austerity. The newly visible agency of central banks uncomfortably raised the possibility of political choices in a system that was supposedly without alternatives.

With the erosion of the myth of apolitical money, the divergent visions of the 1970s have made a surprising, or perhaps not so surprising, comeback. Reminded of the ability of central banks to create money at will, since the Financial Crisis there have been once more a number of proposals that aspire to complete the Hayekian call for a denationalized and privatized money removed from the control of the state. If Hayek's vision of competing private currencies failed to gain traction and lost urgency during the

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46 Adam Tooze, "Just Another Panic," *New Left Review* 97 (January-February 2016), 129.

47 Timothy Shenk, "The Federal Reserve's Growing Power," *The Nation* (February 17, 2016). http://www.thenation.com/article/the-federal-reserves-growing-power/

48 J. W. Mason, "The Fed Doesn't Work For You," *Jacobin* (January 2016).

Great Moderation and the rise of global credit money, the idea nonetheless never quite died. It remained a secret fantasy of many with libertarian leanings. Even among central bankers, whom Hayek had after all castigated as doing the devil's work, it was nurtured. In 1996, Alan Greenspan, then chairman of the Federal Reserve and just reappointed by President Clinton, marveled at how the technological innovations under way could bring back the possibility of competing private monies.[49] In the midst of the Financial Crisis, with the traditional banking system under threat and the government's role in monetary matters on full display, this possibility suddenly became concrete as Hayek's vision resurfaced electronically.[50] On November 1, 2008, mere weeks after the collapse of Lehman Brothers, a pseudonymous Satoshi Nakamoto posted a paper on an online messaging board that contained a technical proposal for an electronic crypto-currency he dubbed bitcoin.

From the start, bitcoin's mysterious founder and its fervent enthusiasts envisioned the new electronic currency as a digital analog to gold: a universal money beyond human control. Where Hayek had sought to take money away from the state, bitcoins aimed to remove it both from the state and from banks. This was a currency for an age in which trust had collapsed.[51] Behind this dark vision of human trust, one can easily detect

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49 Alan Greenspan, "Remarks by Chairman Alan Greenspan: Regulation of electronic payment systems," At the U.S. Treasury Conference on Electronic Money & Banking: The Role of Government, Washington DC (September 19, 1996). Cited in Nathaniel Popper, *Digital Gold. The Untold Story of Bitcoin* (New York: Harper Collins, 2015), 17.

50 As Benjamin Cohen put it during the first tech boom of the early 2000s, "Hayek's vision of a world of unrestricted currency competition could, for better or worse, soon become reality." Benjamin J. Cohen, "Electronic Money: New Day or False Dawn?," *Review of International Political Economy*, Volume 8, Issue 2 (2001), 221.

51 As Nakamoto summarized, what made his currency unique was that it was "a system for electronic transactions without relying on trust. … The real problem with

Hayek's vision of private money and the nostalgia of gold. Neither is ever far from bitcoin's surface. Indeed, one 35-year-old Montana-based entrepreneur has since combined all of these elements in the form of a digital currency that is backed by a gram of gold. He named it "HayekCoin."[52] Despite being cast in technological futurism, bitcoin thus also always looks backward to a Lockean system of metal money. Its technology is, after all, programmed to ensure that bitcoins, like gold, would always be scarce. This is a project of artificial scarcity.[53] But for its followers, bitcoin is also a utopian project. Robbing governments and banks of their ability to control money, creates on this view a libertarian world in which states have lost control over taxation and credit-creation and are, thereby, unable to finance wars.[54]

The Financial Crisis not only lifted the lid again on proposals to fully privatize money. It has also aroused calls for a re-politicization of monetary policy and the need for monetary reform, ranging from libertarian calls to "audit the Fed" to union-driven campaigns in the US for a more progressive monetary policy, such as the recent "Fed

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conventional currency is all the trust that is required to make it work." Satoshi Nakamoto, "Bitcoin: A Peer-to-Peer Electronic Cash System," November 2008, 8.

52 Thanks to his father – who had flown a 50-foot aerial banner that read "LEGALIZE GOLD!" during Nixon's second inauguration – the entrepreneur's first name is the title of an Ayn Rand novel while his middle name is also Hayek: Anthem Hayek Blanchard. Henry Sanderson, "Digital currencies: A gold standard for bitcoin," *Financial Times* (May 15, 2015). Available online: http://www.ft.com/intl/cms/s/0/38d02382-f809-11e4-962b-00144feab7de.html

53 As computing power becomes more powerful, the mathematical problem that needs to be solved in order to "mine" an additional Bitcoin is designed to become automatically more complicated and is restricted to ensure that no more than one bitcoin is created worldwide every ten minutes or so. Bitcoin is also irreversably programmed to stop "mining" once the total number of bitcoins reaches 21 million (as of January 2016, 15 million had been generated).

54 Popper, *Digital Gold*, xx-xv.

Up!" and "Whose Recovery?" campaigns.[55] In Britain meanwhile, the head of the Labour Party has called for a "People's QE."[56] Normative political theorists are turning their attention to the distributive consequences of monetary policy.[57] On the international level, there has similarly been a flurry of proposals for international monetary reform, a new Bretton Woods conference, and calls for a genuine international reserve currency to replace the dollar. While the developing countries calling for global monetary reform during the 1970s could be easily sidelined, today's calls for reform emanate from the newly powerful central banks of the BRIC countries. In March 2009, for example, Zhou Xiaochuan, China's central bank governor, explicitly floated a revival of Keynes's Bancor blueprint and offered the grand bargain of a new international monetary system that would discipline not only net debtor countries but also net creditor countries such as, after all, currently China itself.[58]

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55 For the two union campaigns, see www.whatrecovery.org. In January 12, 2016, the U.S. Senate rejected the Federal Reserve Transparency Act, introduced by Sen. Rand Paul, which would have given lawmakers greater oversight over the Federal Reserve.

56 "QE" here stands of "quantitative easing," a non-conventional form of monetary policy through which billions of liquidity have been chanelled into the global banking system. See Mark Blyth and Eric Lonergan, "Why Central Banks Should Give Money Directly to the People," *Foreign Affairs* (September/October 2014).

57 See, for example, the recent work of Martin O'Neill, "Justice, Justification and Quantitative Easing," University of Montreal (December 2015); Peter Dietsch, "Monetary Policy and Conflicting Social Objectives," CEP Conference, Montreal (June 2014); and Aaron James, "International Crisis Insurance: the Fairness Argument for a Monetary Co-op," Yale Global Justice workshop (November 2015).

58 Zhou Xiaochuan, "Reform the international monetary system (March 23, 2009)," *BIS Review* 41 (2009). Available online: http://www.bis.org/review/r090402c.pdf; Prachi Mishra and Raghuram Rajan, "Rules of the Monetary Game," *Reserve Bank of India Working Paper Series*, No. 4 (March 29, 2016); for a good summary that places these proposals in relation to Keynes's original plan, see Robert Hockett, "Bretton Woods 1.0: A Constructive Retrieval for Sustainable Finance," *N.Y.U. Journal of Legislation and Public Policy* 16 (2013).

If this dissertation has thus been a study of moments of monetary politics, the Financial Crisis constitutes the contemporary moment from which I have looked back unto previous episodes. The crisis forced both observers and actors to return to historical moments of crisis in search for intellectual guidance.[59] In each of the moments reconstructed in this dissertation I have encountered a similar search for historical orientation that looked to previous crises and thinkers as guides through the then present haze. If nothing else, they might help us to better understand our own predicament. Throughout this dissertation, I have in this spirit sought to recover the monetary thought of Aristotle, Locke, Fichte, Keynes, and Habermas by reconstructing a serialized conversation about currency as a constitutive political institution. In doing so, I argued that the politics of money is inescapable because currency is an essential institution for the creation of civic ties and the administration of political justice. I have at the same time defended the view that even the seeming disavowal of the politics of money is best understood as a political act that founds a modern liberal politics of monetary depoliticization. It is between the full politicization and the full depoliticization of money that the politics of money unfolds.

The Financial Crisis not only constituted a reminder of the inescapably political dimension of money. It also once more revealed money's malleability. The seeming

[59] When asked in 2011 which thinkers had been most relevant to steering through the crisis, Larry Summers, then recently departed director of Obama's National Economic Council, named no living economists but Walter Bagehot, Hyman Minsky, Charles Kindleberger, and Keynes. Martin Wolf, *The Shifts and the Shocks: What We've Learned – and Have Still to Learn – from the Financial Crisis* (London: Penguin, 2014), 195. Adair Turner, former chairman of the British Financial Services Authority, conceded, "to understand the causes and consequences of 2008, I had to return to the insights of early and mid-twentieth-century economists, such as Knut Wicksell, Hayek, Keynes, and Irving Fisher." Adair Turner, *Between Debt and the Devil: Money, Credit and Fixing Global Finance* (Princeton: Princeton University Press, 2015), xiii.

alchemy of fiat money that had been so successfully repressed over the past decades has since stirred up a wariness and anxiety about the effervescent nature of money and credit. Faced with the fictitious nature of money it is tempting to be suspicious of its Faustian character. Calls for rooting money again in some precious commodity or an unalterable algorithm removed from human control respond to these anxieties. But this impulse should make us pause. After all, our political world is full of fictions. The body politic is "a fictitious body." The idea of a democratic people is just as much a fiction as are political rights or the state. Our communities are imagined ones. None of these fictions are any less real for being fictitious. Appreciating that money is a fiction does not have to incapacitate us but can point us to the poietic possibilities of shaping money once more according to our political values. It is precisely money's unique reliance on the forces of the imagination that also renders it a malleable political institution. For better or worse, thanks to its self-confirming nature, the politics of money is singularly unpredictable.[60] Instead of being dazzled or frightened by the fictional character of money, we can and should embrace its underdetermined political possibilities and hold the institutions that govern it to standards of justification and justice.

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[60] As Milton Friedman and Anna Schwartz concluded in their seminal monetary history in 1963, "one thing of which we are confident is that the history of money will continue to have surprises in store for those who follow its future course." Milton Friedman and Anna J. Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton: Princeton University Press, 1963), 700.

Appendix

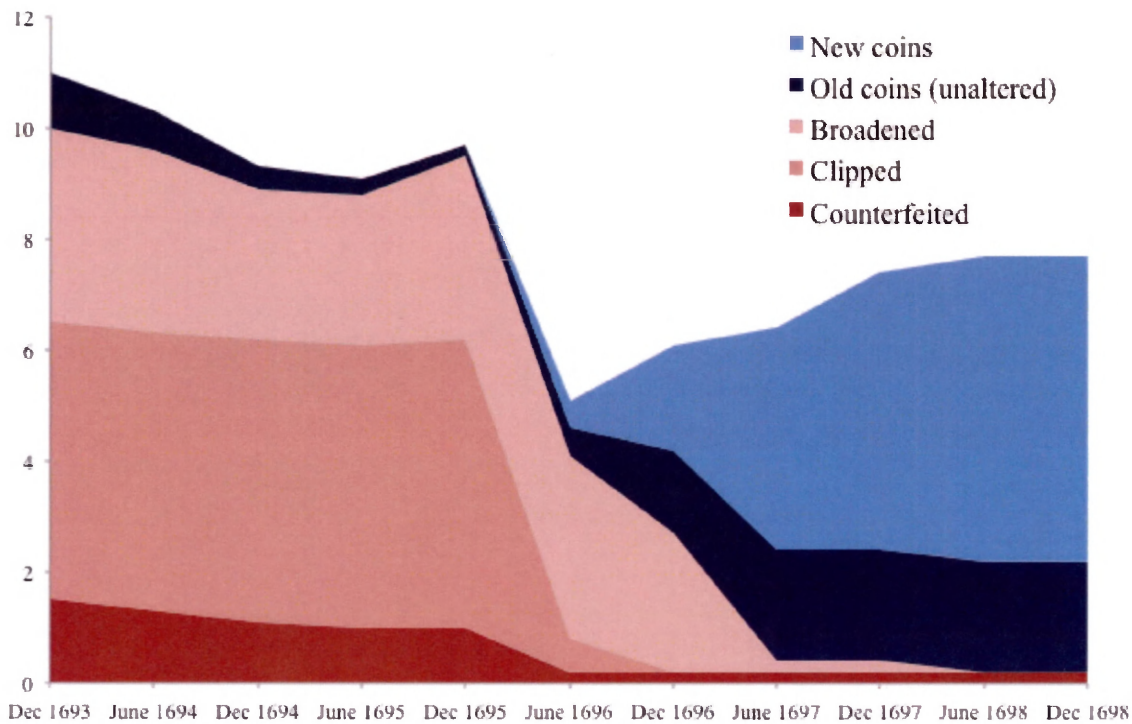

Fig. 1: *Silver coins in circulation*, 1663-1698. £ million sterling, as at last day of month.

Data source: Kelly, "General Introduction," in: *Locke on Money*, two volumes, edited by Patrick Hyde Kelly, The Clarendon Edition of the Works of John Locke (Oxford: Oxford University Press, 1991), vol. 1, 112-113.

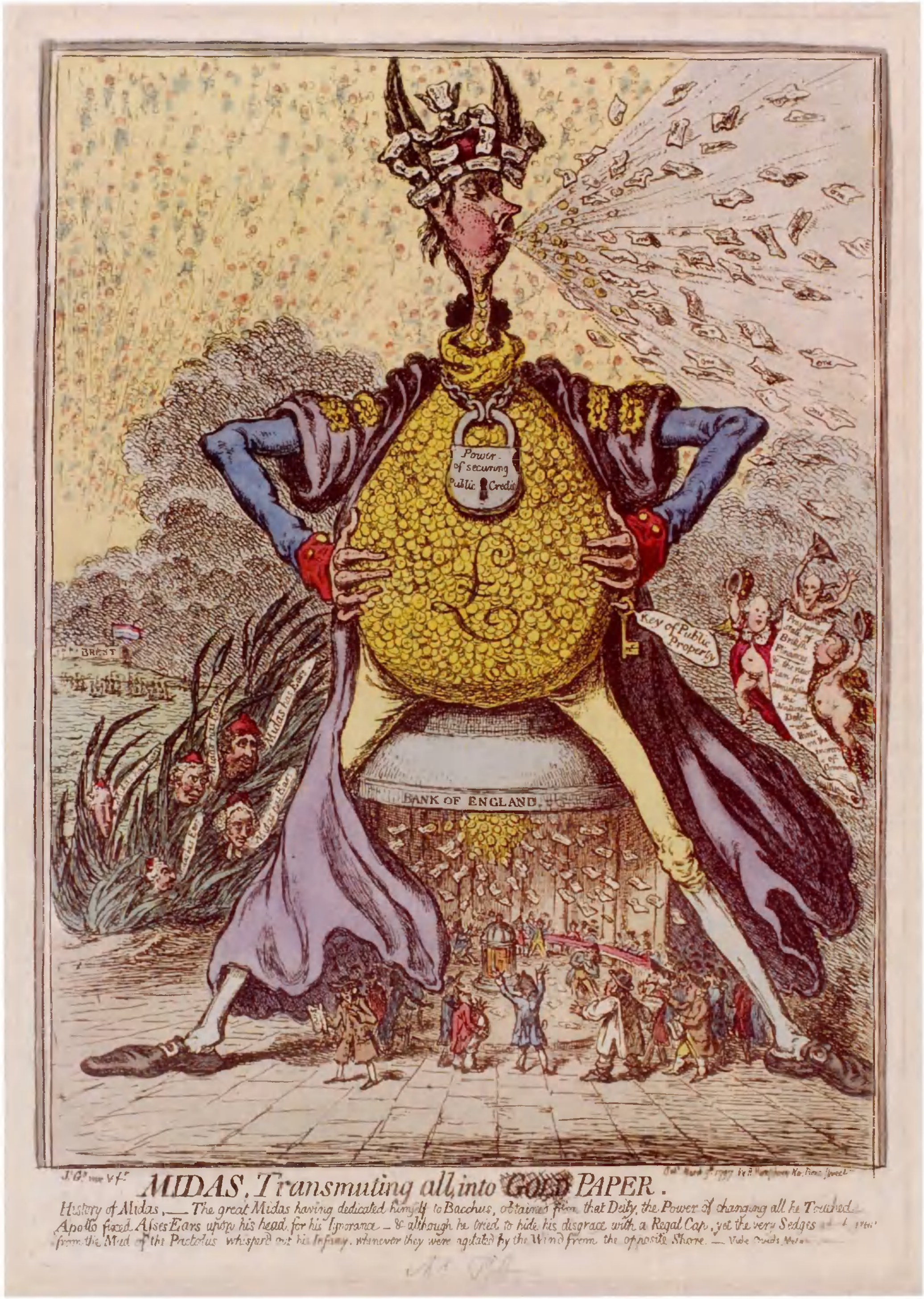

Fig. 2: James Gillray, “Midas, Transmuting all into ~~Gold~~ Paper” (March 9, 1797). The Lewis Walpole Library

Abbreviations

Aristotle

NE *Nicomachean Ethics*

Pol. *Politics*

John Locke

ST *Second Treatise of Government*, in: John Locke, *Two Treatises of Government* [1689], ed. Peter Laslett (Cambridge: Cambridge University Press, 2010), 265-243.

SC *Some Considerations of the Lowering of Interest and Raising the Value of Money* [1691], in: *Locke on Money*, two volumes, ed. Patrick Hyde Kelly, The Clarendon Edition of the Works of John Locke (Oxford: Oxford University Press, 1991), vol. 1, 203-342.

FC *Further Considerations concerning Raising the Value of Money* [1695], in: *Locke on Money*, two volumes, ed. Patrick Hyde Kelly, The Clarendon Edition of the Works of John Locke (Oxford: Oxford University Press, 1991), vol. 2, 401-481.

Johann Gottlieb Fichte

CC *Der Geschlossene Handelsstaat* [1800], ed. R. Lauth, H. Jacob, and H. Gliwitzky, Gesamtausgabe der Bayerischen Akademie der Wissenschaften, Reihe I, Band 7 (Stuttgart-Bad Cannstatt: Frommann, 1962); *The Closed Commercial State*, trans. Anthony Curtis Adler (Albany: SUNY Press, 2012).

John Maynard Keynes

CW *The Collected Writings of John Maynard Keynes*, ed. Donald Moggridge, vols. 1-30 (Cambridge: Cambridge University Press, 2013).

EB *The Political Doctrine of Edmund Burke*. Unpublished manuscript, dated 1904. John Maynard Keynes Papers, King's College, University of Cambridge, UA/20/3.

Jürgen Habermas

TCA *Theorie des kommunikativen Handelns* (Frankfurt am Main: Suhrkamp, 1981), 2 vols.; *The Theory of Communicative Action*, 2 vols., trans. Thomas McCarthy (Boston: Beacon Press, 1984-1987).

Notes on the Text

Translation and transliteration

For the transliteration of ancient Greek terms into the Latin alphabet I have relied on conventional usage or, where not available, followed Greek lettering as closely as possible. For classical sources other than Aristotle, in addition to page references to a modern edition I have provided standard classical references based on M. H. Hansen, *Athenian Democracy in the Age of Demosthenes* (Norman, OK: University of Oklahoma Press, 1999). Translations from the Greek are from the Loeb Classical Library unless otherwise indicated.

Transcription

In Chapter 2, to render legible John Locke's preoccupation with linguistic unreliability and variability I have chosen not to update his spelling, capitalization, and punctuation but to preserve seventeenth-century usage where possible.

Dates

Dates in Chapter 2 are Old Style dates. I only break with early modern English practice in assuming the New Year begins on January 1, not March 25. Most notably, this affects the dating of several key texts discussed in the chapter that were published between January 1 and March 24.

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