



BOOK REVIEW

A political theory of money without the politics

Anush Kapadia, *A Political Theory of Money*, Cambridge University Press, 2023

Events of the last 20 years have shaken the widely held belief that money is a technical, apolitical issue. Both the Global Financial Crisis of 2008 and the COVID-19 crisis have reminded us that money and its governance represent, on the contrary, deeply political issues. Kapadia's book is part of a fast-growing literature that grapples with this realisation and analyses various aspects of the political nature of money as well as its implications for policymaking from monetary policy and fiscal policy, via financial regulation, to international cooperation and trade.

The book attempts to synthesize the most compelling elements of the banking, state, and currency schools of monetary thought while avoiding their pitfalls. While each of these theories is, by itself, at once incomplete and overreaching, Kapadia argues that their insights are modular – and in recombining those insights he finds the theoretical resources to begin addressing several longstanding problems in the theory of money. For example, the banking school rightly understands money as credit but lacks an account of hierarchy in money and so cannot explain why 'some monies are better than others' (xi). Kapadia observes that the state school offers such an explanation, as it recognizes the central role of the state in money creation. But this solution is only partial, as it threatens to confuse the nominal power of the state with politics itself.

What, then, is the central role of politics in a theory of money? Kapadia argues that individual economic units are a kind of illusion. Since one unit's credit is another unit's debt, economic actors are mutually defined, inextricably embedded in 'the social ontology of any economy' (9). Households, firms, and even states can be represented as interlocking ledgers in which the assets of some are necessarily the liabilities of others. These economic actors are therefore mutualised: 'one unit's cash commitment is another's source of cash' (10). But not all mutualisation is equal. The liability a customer deposit creates for a bank is *economic* mutualisation. In contrast, a state's imposition of taxes is *political* mutualisation, an interlocking of the ledgers of taxpayers with the state, and with each other, all mediated by politics.

These two kinds of mutualisation account for money's hierarchical character. There are exceptions, but in general, the highest quality money is politically mutualised: a hegemonic global currency ('world money'), followed by national monies which rely on their national economies as especially powerful and creditworthy reserve assets. Further down the hierarchy we generally find commercial bank monies and other economically mutualised relations. Thus, the robustness of credit claims depends on the political organization of a state, as well as its future economic prospects. Money, and its value, is therefore unavoidably political.

Kapadia's articulation of these two kinds of mutualisation is a welcome contribution, but it is less clear that his view is a genuine compromise between commodity, state, and credit theories of money. In trying to position his account as a theoretical synthesis, he at

times gives the impression of shoehorning other theoretical positions into implausibly narrow spaces.

Let us mention two concrete examples. First, Kapadia states that he ‘takes on board the *materialism* of commodity theories but not their reductionism’ (23) because political mutualisation is sustained by the distinctly *material* productive capacity of a monetary zone. Yet he also admits that ‘this is not the materiality of money identified by the Currency school’ (xii). As such, it is unclear whether this provides real common ground with commodity theorists. There is surely a connection between the value of money and economic reality, but that recognition seems unlikely to satisfy a commodity theorist.

Second, and to our mind more importantly, in arguing that ‘there is no such thing as fiat money’ in chapter 6, Kapadia accuses modern chartalists, that is, theorists who see money as necessarily issued by the state, of neglecting important limits to the state’s capacity to create money. Kapadia may or may not be right that Geoffrey Ingham – his main target in the chapter in question – does not pay sufficient attention to this issue. However, it strikes us as implausible that Modern Monetary Theory (MMT) and its theoretical affiliates are guilty of this charge. While they clearly state that while there is no *formal* limit on the state’s capacity to create money, they insist on an important *prudential* limit. This limit is of course inflation – too much money chasing too few goods. MMTers recognise that real economic capacity puts constraints on government spending, thus establishing a direct connection between money and the material dimensions of the economy. Exploring this prudential limit is quite central to the neo-chartalist project, and it is unclear how it substantially differs from Kapadia’s point that the political mutualisation of money is constrained by the productive capacity of the economy in question.



Part II of the book moves beyond the above theoretical debates to see how they play out in a variety of practical contexts. Here Kapadia insightfully articulates the monetary survival constraints both of developing nations and in the context of the Eurozone (chapter 11). One aspect of these debates that calls for elaboration is the potential role of capital controls. He invokes them on several occasions as an instrument to bend the monetary survival constraint of states, but unfortunately does not give details on the kind of capital controls he has in mind and how this once standard tool might be adapted to the twenty-first century.

Normally, a book review should focus on what the author has done, rather than on what they did not do – especially for books that cover an immense conceptual territory. That said, given that the title of the book promises a ‘political theory’ of money, it seems fair to ask what is required for a political theory of money and how Kapadia’s account stacks up in this regard.

On the one hand, as described above, Kapadia does provide valuable insights into the question of why money is always and essentially political. On the other hand, however, this stops well short of what one might reasonably expect from a *political theory*.¹ Given the deeply political nature of money, what are adequate decision-making mechanisms for monetary institutions? What about the tension between democracy and independent central banks in this regard? What are the distributive consequences of credit creation in a Kapadian economy with two kinds of mutualisation? Do these consequences have to figure in policymaking and, if so, how? On the rare occasion where Kapadia does venture into these questions of political theory – see for instance his discussion of legitimacy (222–223) – his argument lacks some of the nuances one finds in the literature. Kapadia may see these questions as beyond the scope of his book, but we see them as fundamental to a political theory of money.

This book delves deeply into the complexities, nuances, and frequent contradictions of a vast and interdisciplinary theoretical landscape. Kapadia is a skilled navigator, but at times the reader may wish for greater clarity in setting out the major elements that make up the terrain. The project is one of synthesis by modular recombination, and so relies on a clear

understanding of the materials (the many ‘-isms’) out of which Kapadia aims to construct his political theory of money. That said, a motivated reader who already comes with significant background knowledge in monetary theory will find *A Political Theory of Money* a rewarding book.

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Note

1. For two recent contributions to the literature that illuminate different aspects of money’s political nature and how these have been treated historically, see Downey (2024) and Eich (2022).

References

- Downey, L. (2024) *Our Money: Monetary Policy as if Democracy Matters*. Princeton, NJ: Princeton University Press.
Eich, S. (2022) *The Currency of Politics*. Princeton, NJ: Princeton University Press.