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REVIEW ESSAY

# Reading the History of Money: Politically or Ideologically?

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Stefan Eich, *The Currency of Politics: The Political Theory of Money from Aristotle to Keynes* (Princeton: Princeton University Press, 2022)

George Caffentzis, *Civilizing Money: Hume, His Monetary Project and the Scottish Highlands* (London: Pluto Press, 2021)

Mainstream economists have persistently sought to purge politics and morality from economics. During their more confident moments, they argue that economics is value-free, a so-called positive science. This perspective has deeply influenced their way of theorizing money. Indeed, modern neoclassical economics is just the latest instantiation of a long-standing tradition of economic thinkers obfuscating the ontology of money in order to render its politics invisible or unintelligible. This practice dates back at least to Adam Smith in the eighteenth century, when the great Scottish philosopher made a powerful argument for the market as the most just and efficient social mediation device. If there were large numbers of buyers and sellers, the market would ensure that no one person or firm had the power to dictate prices or the quantity transacted. Should anyone seek to impose power over someone else and force them to pay above the market price, that person could simply elect to transact with someone else. The most democratic solution possible, the market outcome was achievable without any assistance or intervention by the government. Money, to Smith, was an adjunct to the market, emerging organically to facilitate the ease of exchange. No person or institution was responsible for creating it, had the power to manage it, or could dictate its value. Unfortunately, according to Smith, crowns and governments often succumbed to the temptation of trying to control and manipulate money, but such efforts never ended up successful. Their actions, Smith argued, were grounded in a fundamental misunderstanding of the relations between money and politics. One of the primary aims of the *Wealth of Nations* was to rectify this by teaching the public that money should not be the subject of politics.

In his excellent new book, *The Currency of Politics: The Political Theory of Money from Aristotle to Keynes*, political scientist Stefan Eich argues that economists have fundamentally misunderstood, or rather misconstrued, money. He argues that there should not be a debate as to "*whether* money has or should have a political dimension but instead over *how* that politics ought to play out and what values should guide it" (xvi). Efforts to encase money from politics are often motivated by an effort to distract the public from seeing who really creates, operates, and manages money. At the current moment, what Eich calls "money power" resides in the private–public collaboration between central banks and commercial banks. In the case of the United States, it is "not just the Federal Reserve that can create money out of thin air; the state has delegated this practice of magic for the most part to private banks" (3). While the machinations of power at the center of the monetary mechanism become more transparent during crises, such as the one that hit the world economy in 2008, the Fed and its network of member banks have been operating with a clear political agenda in mind for decades. For example, since the 1990s, in the spirit of neoliberalism, central banks have kept interest rates extremely low, thus encouraging borrowing. Much of these funds has been used to purchase real estate and financial instruments, causing a massive run-up in asset prices, benefiting its owners. Because neither real-estate nor financial instruments are included in basic measures of inflation, central banks have felt no obligation to slow down this bonanza by increasing interest rates. Instead, this process has been allowed to go on, resulting in an ever-growing chasm between wage earners and capital owners. Clearly, money is governed by a particular kind of politics—a plutocratic power that prioritizes property owners.

Whether it was the Occupy Wall Street movement, the publication of David Graeber's *Debt: The First 5,000 Years*, or the film adaptation of Michael Lewis's *The Big Short*, since the wake of the 2008 financial crisis it has been impossible to uphold the illusion that money is an apolitical institution. This became even more apparent once the Federal Reserve was forced to acknowledge how it went about bailing out Wall Street. In the case of the massive insurance firm AIG, Ben Bernanke, then chair of the Federal Reserve, described how the Fed had simply credited AIG's account at the Fed with nine zeroes. While this exposé of how the Fed operates was old news to anyone who had taken a course on "Money and Banking," it was, Eich suggests, a shocking insight for many others. The public's recognition of the Fed's power signaled, according to Eich, the need for the development of an alternative politics of money, one that transcends the blatantly hierarchical and antidemocratic values of the banking system. Eich insists that people interested in progressive social change must therefore "craft alternative visions for a more democratic politics of money and articulate a better democratic language of money power" (20). This cannot be trusted to economists, as money is simply too important to be left to them. Instead, Eich argues, political theorists, who possess the requisite "vocabulary and institutional imagination" (21), must take the lead in articulating those new visions.

Eich ascribes a great deal of power to ideas. To develop new ideas for the future, it is essential that we understand how money was depoliticized or repoliticized in the past. To that effect, Eich takes his readers on a tour of key monetary theorists, including Aristotle, John Locke, Johann Gottlieb Fichte, Karl Marx, and John Maynard Keynes. In the first chapter, Eich explores the political dimensions of money in ancient Athens. The coinage was both the source and the result of the city-state's power. The reason why people used the coins is that they trusted the longevity of the state, and by using the coin the city-state became more present and real in people's minds. The coin was also

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used by the state to project its power, both within and outside its territorial boundaries. The introduction of coinage did something to the essence of politics; it facilitated a shift "away from divine justice and toward a form of political authority that was more terrestrial, more conventional, more political" (24). In *The Politics* and *The Ethics*, Aristotle famously formulated one of the first theories of money. While he did not deny that money played an important economic role, his primary interest was to explore how money facilitated the stability of the polity. He emphasized how money made things and people commensurable, which was necessary for justice to be possible. Money used for exchange, not accumulation, also promoted reciprocity, which served as a critical social glue, bonding people together. As justice and reciprocity were essential to the polity, money for Aristotle was necessarily political.

While politics was front and center in Aristotle's discussion of money, with John Locke (Chapter 2) we encounter an early effort to depoliticize money. In Eich's account, Locke was concerned that something so essential to the stability of early modern capitalism was so fragile and corruptible. Writing at a moment when the concept of money was being challenged by the Financial Revolution, Locke was concerned about the many different types of money in circulation and the seeming impossibility of figuring out what it was that determined the value of money. Money was in many ways similar to language, the meanings of which were difficult to pin down with certainty. The conventional nature of money and language made them liable to manipulation. Whether it was the actions of the counterfeiters challenging the value of the coin or the ongoing philosophical debate about the nature of value, Locke believed that it was essential to remove money from politics and ground it in nature. The way to do this was to shift money from a semantically malleable mixed-mode term to an inviolable and immutable substance word. This could be orchestrated by creating an incorruptible link between money and silver. In order to protect the stability of money it was therefore necessary to jealously guard money's silver content. If not, there was a risk that the next monetary crisis would expose not just money but also society "as dangling by a fragile thread of trust" (71). But if money was linguistically transformed into a natural object, it would no longer be the subject of political discourse or discretionary political manipulation. Eich, in a pithy formulation, captures Locke's stance in the recoinage debate as promoting government intervention "in the name of nonintervention" (70).

Contrary to Locke's effort to depoliticize money, Johann Gottlieb Fichte, the protagonist of Chapter 3, sought to restore the state as the center of money. Similar to other mid-eighteenth-century thinkers, such as Carl Linnaeus, Fichte recognized that the commercial world produced an ever-escalating animosity between countries that often led to warfare. These massive wars, such as the Seven Years War—the first worldwide war—were deeply disruptive of both commerce and politics. The solution that Fichte proposed was for each nation-state to issue its own paper money. He argued that one of the many benefits of a paper-money standard is that countries would no longer seek to attract precious metals from abroad, which in turn would put an end to the prevailing jealousy of trade, the source of so many armed conflicts. A drastic reduction in the need to tax the population would soon make the fiscal–military state superfluous. The paper-money system Fichte proposed would be fully managed by the state. Each nation-state should put its seal on the paper note, declare it legal tender, and accept it in payment for taxes. This, he believed, would be sufficient for the currency to circulate.

By putting "money power" in the hands of the state and thus allowing it to change the value of money at will, Fichte, contrary to Locke, expressed a manifest confidence in the integrity and competency of the state. In what would become a common German trope, Fichte believed that an enlightened and rational state had the power to police itself. Through Fichte, Eich is able to show how a repoliticalization of money can open up a host of new possibilities—international peace, national autarky, and communal trust.

In Chapter 4, Eich explains how Marx dismissed any hope of money serving as a lever for progressive reform. For Marx, money did not stand outside the circulation of commodities; it was itself a commodity and, as such, it was subject to the relations of production. While government officials could manipulate the currency, this would ultimately not have much of an effect on society. Marx thus regarded proposals for monetary management and currency legislation as "theoretically confused and politically naïve" (109). In essence, Marx argued that all the institutions of capitalism, whether money, private property, wage labor, surplus value, or capital, are reflexively defined. Taking away one institution while keeping the rest intact will only lead to the emergence of a replacement that functions analogously. Marx captured this, in his characteristic style, by suggesting that abolishing money while leaving wage labor intact was tantamount to removing the Pope while keeping Catholicism in place (128). Marx thus concluded that the state effectively does not possess "money power." This does not, of course, as Eich notes, mean that Marx viewed money as apolitical—anything in the world of capitalism was infused with class politics, but not necessarily electoral politics.

Eich's chapter on Keynes traces the roots of the current monetary system. The great Cambridge polymath advocated for a monetary system that was steered by expert economists but independent of discretionary political power. By providing trained experts with more and better data about economic conditions, they would be in a position to manage money in a manner that promotes the ideals of full employment, price stability, and sound financial conditions. Casting Keynes's plan as a hybrid between the politicization and depoliticization of money, Eich uses the term "constitutionalization of money." Similar to Marx, who saw a link between monetary instability and revolution, Keynes wanted to protect the sanctity of money to avoid additional countries following in the path of Russia. To that end, it was essential that the global monetary system be organized according to a similar logic. He wanted to create a global central bank that allowed for considerable national policy autonomy, yet coordinated international trade through exchange rate adjustments in a manner that promoted worldwide economic growth and stability. Central banks around the world would be members of the global central bank in the same way that domestic banks were members of the national central bank. Although Keynes was part of the Bretton Woods deliberations, the postwar outcome was far from Keynes's ideal. Instead of a global central bank and a clearing union for a global currency, the world ended up with the US-centered IMF and World Bank, as well as a monetary system centered around the US dollar and gold, none of which fulfilled Keynes's vision of a monetary system managed by experts outside the purview of electoral politics. The repoliticization of money in the postwar era led to central banks and commercial banks enjoying "money power" domestically and the

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United States government commanding "money power" internationally. Eich argues that Keynes would not have been happy about this outcome.

In the final chapter, Eich explores the postwar global trend of shielding monetary policy from democratic influence. Inspired by the ideas of Friedrich Hayek and Milton Friedman, money was perceived to be "too dangerous an instrument to be left to the state" (189). Indeed, even the expert economists, who Keynes thought would be able to manage money expeditiously, were deemed either too political or not sufficiently well informed. While central banks and monetary policy survived, from the 1980s onwards the consensus was that elected officials should have no sway over monetary issues. This not only gave central bankers full autonomy to act on their priorities (which Eich points out are generally highly biased towards the interest of the rich), but also allowed elected politicians to abandon responsibility for the economy, including the justice of distributive outcomes. The market was touted as the only legitimate arbiter of resource allocation, despite the fact that postwar commentators of such different political stripes as James Galbraith, Paul Baran, and Robert Nozick insisted that markets were all too monopolized. In the US, this generated an ideal set of conditions for large corporations. Benefiting from extensive market power, lobbying influence, and a central bank that would always look out, first and foremost, for its member banks, corporate America thrived. The immediate effects of this "silent revolution," as Eich calls it, were stagnant wages and ballooning returns on capital, to which Thomas Piketty famously brought attention. While all of this happened, politicians conveniently proclaimed themselves powerless.

While the postwar monetary regime was extraordinarily successful in shaping social relations in favor of the rich, the mirage of depoliticization vanished with the 2008 financial crisis. It was revealed, Eich points out, that Wall Street fundamentally relied on the state to provide liquidity, safe assets, and periodic bailouts. It thus became clear to the public that the state possesses "money power," which it could elect to use for other purposes as well. This sparked a movement of people questioning why the state would not choose to bail out the homeless or the working poor. The government's response to the COVID pandemic further confirmed the government's ability and capacity to use its money-creating power. Now that the public knows full well that "money power" can be applied to a variety of purposes, Eich argues, the time has come to develop a set of democratic visions for how this power can be reshaped. In his brief epilogue, he returns to the central question animating his book: "what kind of politics ought to shape [money]" (211)? While he does not elaborate a specific answer, he reminds his readers that they must embrace "the possibility that central banks can become laboratories of 'open democracy'" (217).

Eich's historical review from Aristotle to Keynes is in many ways excellent, but it is only in the last three chapters (on Marx, Keynes, and neoliberalism) that he makes original contributions. One must therefore ask whether the first three chapters are necessary; and the answer is that they are indeed essential to the analytical arc of the book. In providing excellent syntheses of Aristotle, Locke, and Fichte, Eich prepares the reader for later chapters by developing a language of critique and opening up conceptual spaces in which to think about the architecture of money. By doing so, he equips the reader with the conceptual tools necessary to understand what is wrong with the politics of money today. By showing how certain economic philosophers magically made politics disappear while others sought to reintroduce it, Eich provides the reader with a variety of options for how to theorize the relationship between money and politics. He also provides the reader with numerous hints as to how "money power" can be employed to foster democratic values.

Eich's critique of modern "money power" is on point. He brilliantly illuminates key instantiations of the depoliticization and repoliticization of money in a way that opens up a devastating critique, from a democratic point of view, of how modern money is politically constituted. Reengineering the monetary system so that elected officials have greater discretionary power over the money creation process is not, however, an uncomplicated solution. Indeed, it was the very recklessness with which elected officials in numerous South American nations used the printing press in the 1980s that led to the elevation of the concept of "central-bank independence" to globally accepted mantra. Although Eich does not explore disastrous experiments, such as Bolivia's 20,000 percent rate of inflation in the mid-1980s, it is obvious that he is not simply calling for *any* democratic control over money. For "money power" to be marshaled in the pursuit of democratic ideals, politics itself must be reconstituted. That is, shifting power over money from the Fed and its member banks to elected officials will not do the job. After all, this is exactly what Donald Trump sought to accomplish as president during his first term in office.

One prominent monetary theorist that Eich does not engage, Adam Smith's best friend David Hume, was fixated on the dangers of giving power over making money to politicians. While Hume was open to commercial banks creating money, as long as it was issued on good security and was fully convertible, he opposed the public issuance of money, on the grounds that politicians will always be tempted to abuse their power. When they do, they will trigger an inflationary process that will greatly disrupt the economy. As the philosopher George Caffentzis points out, the "problem with paper-currency [for Hume] is not that it violates some deep ontological" principle, but rather that the people in charge cannot be trusted to properly handle the power of money (121). Caffentzis makes this claim in his recent book, *Civilizing Money: Hume, His Monetary Project and the Scottish Highlands*. In this, the final installment of his magnificent trilogy on the early modern philosophy of money (the two earlier books explore John Locke and George Berkeley's philosophies of money), Caffentzis offers a different approach to the politics of money. While Eich provides an ideological reading of money, focused on making the politics of money more legible, Caffentzis offers a political reading in which he explores how Hume's theory of money was intended as a strategic weapon to be used by the state to manage a particular crisis in class relations.

In Caffentzis's book on John Locke (which served as an important inspiration for Chapter 2 of Eich's book), he explored how Locke's arguments in the debates about the 1696 Great Recoinage were motivated by his belief in the necessity of protecting the English currency against a motley crew of forgers, clippers, and counterfeiters.

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He wanted to remove any possibility for the poor to survive without subjugating themselves to the daily discipline of industry, which was not only the source of the nation's wealth but also the foundation for a stable and ordered society. If the poor could get by without working for a wage, primitive accumulation would have lost its coercive power. In his second book, he read George Berkeley's philosophy of money as a direct response to the social crisis that ravaged Ireland during the first few decades of the eighteenth century. He argued that Berkeley saw the multiplication of paper money as a device that might serve to ignite the industry of the poor. He also believed that a paper-money standard in Ireland would make it difficult for wealthy absentee landowners to spend their proceeds abroad, thus leaving the wealth to be consumed or reinvested in Ireland. In *Civilizing Money*, Caffentzis argues that Hume's philosophy of money was intended to assist in the pacification of the notoriously rebellious Scottish Highlanders. Transportation, exile, slaughter, and extirpation were not enough to turn the unruly Highlanders into disciplined workers, governable political subjects, and refined consumers; they had to be civilized. For Hume, this meant that the poor had to be incorporated into a social sphere shaped by private property, market exchange, and money.

Only when social relations were monetized would the "primitive" men and women of Ullapool and Tarbert embark on a path towards civilization. In "uncultivated ages," where "fancy has confounded her wants with those of nature, men, content with the produce of their own fields, or with those rude improvements which they themselves can work upon them, have little occasion for exchange, at least for money."[1] In such circumstances, there was little industry or refinement, leaving society to teeter on the brink of disaster. In the absence of people engaging in diligent industry, utilitarian exchanges, and technological improvement, Hume believed, people were likely to become brutes, whose sole pursuit was military conquest. This is how he saw the Highlanders. To prevent a repeat of the 1745 invasion of the Scottish Lowlands (and the northern half of England), Hume insisted that the Scottish Highlands had to be properly monetized. The question for Hume was, what kind of money would be preferable? Or rather, to phrase it in terms of Eich's terminology, who should possess "money power"?

While many commentators have sought to make sense of Hume's often rather confusing analysis of money—he famously argued one thing only to later add nuancing layers that complicate interpretation—Caffentzis is one of the few scholars who have situated Hume's ideas on money in the historical and political context of the Scottish Highlands and, most importantly for our purposes here, read these ideas as strategies to manage crucial ruptures in the social fabric. As noted above, Caffentzis argues that for Hume the idea of giving public officials the power to create money is an absolute nonstarter. He did not believe that there were enough people in the Scottish Highlands who could be trusted not to abuse such power. If a national bank were founded, bank

[1] David Hume, *Essays Moral Political and Literary* (Indianapolis, 1985), 291.

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managers would surely fail to resist the temptation to use their money-making power, which would have a detrimental impact on price stability and international trade. This was, Caffentzis argues, "Hume's paradox: to put the control of money in the hands of the uncivilized in order to civilize them would defeat the very intent of his program" (123).

In addition to the chapters on Hume's view of paper money (Chapters 4, 6), *Civilizing Money* also offers deep insights into the meaning and origins of "civilization" in Scotland (Chapter 1). Caffentzis argues that "civilization" comprised three interrelated processes: "the rationalization of intra-capitalist relations," "the disenfranchisement of the English workers from their 'traditional' rights and liberties," and "the destruction of communal relations in the Scottish Highlands." Together, these processes resulted in Scotland becoming fully integrated "into the orbit of Britain's imperial economy" (14). In Chapter 2, Caffentzis shows how the Annexing Act and the Militia Act figured as the backdrop for Hume's *Political Discourses*. The proposals that Hume made for civilizing the Highlanders would have been recognized by contemporaries, Caffentzis argues, as an immediate response to the 1745 Jacobite Rebellion. Chapter 3 offers a fascinating account of Hume's monetary education while serving as a merchant clerk in Bristol. While this was a brief affair—Hume would soon depart for France to write his masterpiece *A Treatise of Human Nature*—it was nevertheless a formative experience for him. It taught Hume about money, credit, and trade, in particular the British slave trade, which was headquartered in Bristol. In Chapter 5, Caffentzis engages in some speculations as to whether Hume may have read Berkeley's *The Querist* and therefore may have been influenced by his monetary thinking. To conclude this excellent book, Hume's monetary thinking is put into conversation with that of Berkeley and Locke. In addition to comparing their monetary thinking, Caffentzis explores how they theorized the relationship between labor power and money as a mediation between workers and capitalists. Bringing the discussion back to Marx, Caffentzis points out that money as a capitalist institution cannot be properly grasped outside the wage relationship.

Caffentzis's book on Hume serves as a reminder that "money power" is often used to strategically manage society in the interest of society's elites. This also means that the critical questions regarding money, such as whether money should comprise gold or paper or whether the quantity of money should be fixed or flexible, are rarely decided on the basis of philosophical or economic principles, but rather by its expediency in promoting the class interest of those who are in the position to wield money as a political weapon. To Caffentzis, this is not particularly surprising. After all, much of the history of philosophy, in particular the early modern tradition, has served the interest of those remaking the world through primitive accumulation. Although philosophers often talk about justice and liberty, "the *actual* record of philosophy's lack of support for human liberation in general from ancient to modern times is shameful and scandalous" (214). *Civilizing Money* also reminds us of how difficult it is to put into effect the kind of democratic politics of money for which Eich calls. While the challenge to develop new ideas of money in a democratic vernacular might not be insurmountable, the actual implementation of the resulting plans is an altogether different problem.

Given that money can only be transformed by those in power, democratic monetary reform must be preceded by the creation of an entirely new political logic. That said, neither Caffentzis nor Eich has lost faith in our potential to develop new ideas for the future that can transcend depoliticized ideologies of money. For both of these brilliant scholars, money can, despite its past, serve in the future as a tool for the common good, sustainable prosperity, and greater equality.

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