Further reflections on the ontology of money: responses to Lapavitsas and Dodd

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Abstract

The debate on the nature of money, its origins and conditions of existence has been recently taken further in separate articles in *Economy and Society* by Lapavitsas and Dodd. Both criticize Ingham’s elaboration of Keynes’s contention that the money of account is the primary concept in a theory of money. Lapavitsas reiterates and extends his Marxist analysis of money’s origins as a universal equivalent in commodity exchange. This fails to explain the existence of a money of account, without which genuinely market exchange cannot take place. Dodd’s claim to furnish a much-needed analytical refinement in the analysis of money, used to criticize Ingham’s position, is shown to be based on a re-statement of an established and widely accepted distinction in monetary theory.

Keywords: money’s logical and historical conditions of existence; the state theory of money; Marx; Keynes; Simmel.

Introduction: the nature of money

After many years of neglect the question of the nature of money is receiving the attention it deserves. As yet, however, it can scarcely be said that this represents an advance in understanding; unresolved problems are being rediscovered and old errors restated. Fundamentally different answers to the question of the ontology of money have endured for at least two millennia and continue to inform the current debate in *Economy and Society*. 

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Costas Lapavitsas (2005) has now presented a response to my critique of the Marxist theory of money that he and Fine published five years ago (Fine and Lapavitsas 2000; Ingham 2001). Nigel Dodd, one of the first contributors to the revival of sociological interest in money with the publication of his PhD dissertation in 1994, has also joined the growing debate (Dodd 1994, 2005). He believes that new monetary developments – such as the euro – require us to embark on a ‘much needed analytical refinement to the sociology of money’, and he is clearly unimpressed by his reading of the one that I presented in The Nature of Money (Ingham 2004).

In the most elementary terms, there are two distinct and incompatible theories of the origins, development and nature of money.¹ On the one hand, money is said to have first appeared spontaneously in the course of market exchange. Here money is identified with its commodity form. It emerges as a ‘medium of exchange’ that acts as a ‘universal equivalent’ – that is to say, as the commodity against which all others can be valued and exchanged. From the outset, it is important to note that the important distinction between simple barter exchange and a market is not observed in this approach. Strictly speaking, a market is a system of multilateral exchanges in which bids and offers, priced in a money of account, can in principle produce a single price for a uniform good (White 1990). Bilateral exchanges, or barter, need not, and routinely do not, produce a single price in this way – although neoclassical economic theory has tried, but failed, to demonstrate this outcome. Consequently, I have argued that simple barter exchange cannot produce a single stable price for a commodity that would enable it to act as universal equivalent (measure of value, or money of account) (Ingham 2004). That is to say, a genuine market presupposes the existence of a money of account in which demand and supply can be expressed in prices. In other words, money of account is logically anterior to the market (Ingham 2004; Aglietta and Orléan 1998).

In this theory, the focus of attention is on media of exchange, and less attention is given to other means of monetary transmission and to money of account. The question of money of account will be addressed shortly; but here it should be noted that there is an important, but rarely made, distinction between media of exchange and media of transmission. As we shall see, it enables us to begin to deal with one of Dodd’s confusions. Coins and notes are generally considered to be media of exchange and transmission – or, currency that circulates. But credit cards, for example, are not exchanged for goods – that is to say, they are (or should be) non-circulating media of transmission of abstract value stored in accounts. This of course raises intriguing questions, to which we will return. That is to say, in a credit card transaction what does money consist in? If coins and credit cards are both money, how do we know this?

The other school – to which I subscribe – sees money as an abstract claim, or credit, measured by a money of account. Here money’s nature is twofold: it measures and stores the abstract value of general purchasing power and
transports it through space and time. Money has value not because it comprises a commodity with fixed intrinsic value (although an authority might declare it to have one, as in a gold standard), but because it is ‘the value of things without the things themselves’ (Simmel 1978 [1907]: 121). It is essential to recognize the abstract nature of this measure of value. Some thing may be judged to be more valuable (or longer) than another by direct comparison, but precisely how much more valuable (or longer) can be established only by an abstract measure against which they can both be judged (Simmel 1978 [1907]: 131; Carruthers and Babb 1996). My elaboration of this view holds that the process of exchange cannot produce the measure, which therefore must be considered, as we have already noted, to be logically anterior to multilateral exchange. Money requires its own social and political conditions of existence – most importantly, an authority – which are relatively independent of the sphere of exchange. Money entails sovereignty (see the theoretical and extensive empirical work in Aglietta and Orléan 1998, 2002; also Goodhart 1998).

The ontological specificity of money derives from what Keynes referred to as the ‘description’ of money by a money of account (Keynes 1930: 4). Such a description, by which we understand some object or institution as being monetary, is assigned by what the philosopher Searle refers to as ‘collective intentionality’ (Searle 1995, 2005). In other words, money does not spontaneously emerge from the individual quest for utility in competitive market exchange, and media of exchange are money, as opposed to exchangeable commodities, when they conform to the description of measured abstract value – dollars, euros, etc. (Of course, money is traded as a commodity on foreign exchange markets, but it must be first constituted as money.) This position has sometimes been identified as monetary nominalism, as opposed the monetary materialism of the commodity-exchange theorists’ emphasis on the form and substance of money things (see Ellis 1934).

Of course, an account of the social construction of this nominalization is necessary. In The Nature of Money, I argued that money was not only produced socially, but actually constituted by a social relation of credit-debt denominated in an abstract money of account. First, issuers promise to accept in payment of any debt owed to them, denominated in their declared money of account, the form of money that they have emitted and described by the same money of account (Ingham 2004: 12, 178, 187). Second, money (with a known value, as opposed to mere tradable commodities) can exist as a credit, for the holder only if there are other debts, denominated in the same money of account, awaiting cancellation. In other words, money (as opposed to mere tradable commodities) cannot be created without the creation of debt (Bloch 1954 [1936]; Innes 1913, 1914). (It should be noted that ‘spot’ monetary exchanges also involve short-term debt ‘contracts’ in which a coin is handed over, for example, to settle a debt incurred in contracting to buy a newspaper.) A monetary space is one in which debts and prices are denominated with the sovereignty of single money of account (measure of
value). This overcomes the anarchy of variable exchange ratios of even the most tradable commodities.

Lapavitsas’s theory of a universal equivalent

Lapavitsas and I are in different camps, but we also have other points of disagreement about Marx’s theory of money. Previously, I expressed a reluctance to engage in an exegetical dispute – as they tend to be as inconclusive as the texts are ambiguous (Ingham 2001). However, as Lapavitsas persists in claiming that his critique of my theory is based on Marx’s analysis, the issue cannot be avoided. I shall repeat my earlier criticism that Lapavitsas departs from the central import of Marx’s labour theory of value. In 2000, he and Fine offered a Hegelian analysis of money’s resolution of the anarchy of barter (Ingham 2001). I would suggest that Lapavitsas’s latest intervention is indistinguishable in its analytical structure from the orthodox neoclassical economic creation myth of money’s origins in barter exchange.

However, Lapavitsas and I share the same project in seeking to establish analytically the conditions of existence of money in general, whereas Dodd somewhat contradictorily suggests that this might be a futile quest (Dodd 2005: 571). About a century ago, this question was framed in terms of money’s ‘logical’, as opposed to ‘historical’, origins. Given the inherent inadequacy of the evidence, the precise historical origins of money will never be known.3 But, this does not mean that we should dismiss the relevance of the historical record, as the economic theorists did at the turn of the last century. Any analytical construction of money’s logical conditions of existence must be consistent with historical knowledge – however inadequate this may be.

Lapavitsas considers my argument that money is constituted by social relations to be an important insight, but contends that the relations involved are not, as I argue, credit-debt relations; ‘[r]ather, the social relations that constitute money are those among commodity owners engaging in exchange’ (Lapavitsas 2005: 390). (This betrays a misunderstanding of my argument that money is actually constituted by credit-debt relations that exist independently of commodity exchange relations that are merely mediated by money. The point will be examined further.) For Lapavitsas, these monetary relations ‘unfold out of initial contacts between commodity owners’, and he claims that his analysis relies on Marx’s account of the universal equivalent (Lapavitsas 2005: 390).

His model assumes the existence of otherwise unrelated (in his term, ‘foreign’) traders whose sole motivation for interaction is to gain an equivalence for the commodities they bring to the market. This is explicitly acknowledged to be the same as the ‘anonymous’ market of neoclassical economic theory in which individuals strive to maximise utility (Lapavitsas 2005: 392). And in a similar manner to this model (Menger 1892), money is said to emerge in exchange as the most tradable commodity. Referring to Marx’s method for establishing the exchange value of a ‘relative’ commodity to an ‘equivalent’ commodity (e.g. 20
yards of linen = 1 coat) (Capital I, 1976: 138–78), Lapavitsas constructs a conjectural account of money’s emergence without any supporting historical evidence whatsoever. In ‘accidental’ encounters involving an opening declaration of a ‘relative’ commodity’s exchange value, traders realize that an ‘equivalent’ commodity can be exchanged for, or ‘buy’, the ‘relative’. ‘Rudimentary moneyness’ is now said to exist (Lapavitsas 2005: 392). But this is a binary relation between commodities and bilateral relation between traders – in other words, it is a description of barter. Mere exchangeability has been established and not rudimentary moneyness which entails multilateral relations. Like neoclassical economic theory, Lapavitisas does not distinguish barter from market exchange.

After a series of ‘analytical stages’, Lapavitsas asserts that a frequently traded commodity ‘eventually monopolizes the ability to buy’ and, consequently, becomes a universal equivalent (money). He acknowledges the difficulty in demonstrating this ‘analytical passage’ to a situation in which ‘all commodity owners make regular and frequent requests for exchange to a single commodity’ (Lapavitsas 2005: 393). The crucial question is whether the transition from commodity to universal equivalent can be logically deduced exclusively from the analytically specified conditions of existence in the model. Ultimately, as we shall see, he does not believe that it can. As is the case with the similar neoclassical theory of money’s logical origins, a range of empirical, or ‘historical’, conditions have to be introduced to render the theory coherent (Lapavitsas 2005: 394–5).

As I have emphasised (Ingham 2004), it is impossible to make a purely analytical move from binary relations between commodities, involving bilateral barter exchange, to a genuine multilateral exchange market, without assuming that which is to be explained – that is, a universal equivalent. It is for this reason that Keynes made the basic distinction between a ‘convenient medium of exchange’ and what he considered to be the ‘primary concept of a theory of money’ – that is, money of account (measure of value) (Keynes 1930: 3). In orthodox economic theory, from Menger (1892) to modern neoclassical analysis (Kiyotaki and Wright 1989) and in Lapavitsas’s account, it is implicitly assumed that money of account is unproblematic (see Hoover 1996). It is thought to be merely a matter of numerically representing the value of a frequently traded commodity that spontaneously emerges as a medium of exchange. But, unless assumptions about further concrete conditions of existence are added, it is difficult to avoid the conclusion that the exchange value of any ‘convenient medium of exchange’ would vary to such a degree from trade to trade that it would not be sufficiently to stable to be used for the posting of price lists in genuinely multilateral markets and, more importantly, longer-term debt contracts (see also Hicks 1989; and, of course, Keynes 1930). A commodity such as a rock of salt that serves a convenient medium might exchange for two ducks in one trade (or contract) and three in the next, and so on. The particularistic terms of any salt/duck debt contract would also
seriously impair its transferability. A holds B’s IOU for three ducks, but C will not accept them in payment of A’s debt to her of two rocks of salt.

A stable measure of value (money of account) for commodity money requires that the value of the commodity is fixed by an authority in a stable exchange ratio; for example, an ounce of gold equals one dollar; an ounce of best Virginia tobacco equals one shilling (see Grierson 1977: 17). Economic theory has held, but has been unable to demonstrate convincingly that myriad bilateral exchanges will eventually produce such a stable ratio and thereby a usable measure. Indeed, given the famous absence of a double coincidence of wants and the existence of varying tastes and preferences this outcome is highly implausible: one hundred goods could yield 4,950 exchange ratios (Ingham 2004: 24–5). Even if, as Lapavitsas argues, ‘all commodity owners make regular and frequent requests for exchange to a single commodity’ (Lapavitsas 2005: 393), it does not follow that this most tradable commodity could act as a stable enough measure to enable viable price lists and, more importantly, transferable debts.

As it was so crucial for their theory of the competitive market and its ability to equilibrate supply and demand, the late nineteenth-century economic theorists took this problem very seriously (see the pellucid non-technical account in Hicks’s *A Market Theory of Money*, 1989). Could the continuous ‘higgling and haggling’ among myriad of traders — ‘re-contracting’ in Jevons’s terminology — produce an agreed value for commodity that would enable it to act as the *numeraire* in order that a genuine market might function? Walras, arguably the most analytically and mathematically astute theorist, was unable to come up with a satisfactory demonstration. To show how a general equilibrium model of the perfectly competitive market operated, Walras *arbitrarily* assigned a nominal value to one of the commodities (*numeraire*) and, it should be noted, added an auctioneer with the implicit authority to get proceedings started.

It is true to say that under certain circumstances a commodity might ‘spontaneously’ gain a sufficiently stable exchange value for it to function as a measure of value (money of account), but these are atypical and do not involve large markets with many goods and long-term debt contracts. It is significant that Radford’s (1945) account of the use of cigarettes as money (money of account and medium of exchange) in a World War II prison camp continues to be cited in mainstream textbooks as a demonstration that ‘money is a natural economic phenomenon not dependent on government for its existence’ (Champ and Freeman 2001: 38). However, prisons and drugs present special conditions. First, repeated spot exchanges with a relatively small number of commodities, involving a small number of traders with known preferences (i.e. not the ‘foreign’ traders of Lapavitsas’s model), can more readily establish a universal equivalent. Second, in order for it to function as a stable measure of value, the scarcity of the linchpin commodity must be maintained. The supply of cigarettes and other drugs is stabilized to some extent by the addicts’ consumption, but more importantly the potential anarchy of barter is replaced by the power of the ‘tobacco/drug barons’ to control the supply. Money as the
‘stable pole [that] contrasts with the eternal, fluctuations, movements of objects with all others’ (Simmel 1978 [1907]: 121) is achieved by drugs in prisons by domination, not the market.

After much equivocation in his account of the ‘analytical passage’ from ‘accidental’ to ‘expanded’ to ‘general’ and finally ‘monetary’ exchange, Lapavitsas reaches a similar conclusion. ‘For the “money” stage to emerge properly, however, extra-economic factors are again necessary’ (Lapavitsas 2005: 394). Thus, despite his intention to produce a general theory of money from the exchange of commodities, Lapavitsas has recourse to ‘history’. However, we are not given much in this regard beyond references to ‘social custom’ and the reiteration of the commonplace assertion that commodity exchange arose when communities came into contact (Lapavitsas 2005: 393, 394). This is of course true, as internal production and exchange was normatively regulated in early societies, but trade with outsiders is not very important in the history of money. On the one hand, these trades were barter, even where payments were made in a precious metal. For example, in an agreed exchange of a volume of olive oil for a weight of silver each would be ‘priced’ in terms of the other, but neither would be money unless the ratio was fixed as a constant equivalence that provided a unit of account for monetary calculation, price lists and debt contracts. Moreover, the overwhelming weight of historical evidence points to the fact that trade credit, denominated in a money of account and notched on tally sticks or clay tablets, was the main means by which early trade was conducted (the most recent and extensive bibliographies are in Hudson and Henry in Wray (2004)). Lapavitsas merely asserts that I grossly overestimate the historical validity of my account of the origins of money, but offers nothing of substance as an alternative (Lapavitsas 2005: 393).

Babylon is significant, as Keynes clearly saw, because valuable commodities were given a fixed ratio to produce a measurement of value (money of account). The commodities of silver and barley were linked, by authoritative declaration, to what was in effect a labour theory of value in order to construct a measure of value (money of account). This development was not the result of market exchange and did not follow the hypothetical ‘analytical passage’ outlined by Lapavitsas. Babylon’s monetary accounting system was based on a shekel weight of silver (240 barley grains, about 8 grams in the modern scale), which was accorded the equivalence of a gur (about 1.2 hectolitres) of barley. This was the amount of barley that was considered in the redistributive system to be necessary to maintain a labourer’s family for a month (Goldsmith 1987).

As I have argued at length elsewhere and reiterated here, money is produced by an authority in an act of sovereignty in which what is to count as money and how its myriad forms and media are to be recognized as belonging to the same class of phenomena is established by ‘collective intentionality’ (Ingham 2004; Searle 1995; on sovereignty, see also Goodhart 1998; Aglietta and Orléan 1998, 2002). (The question of the substantive value of money is a separate issue.) It is true, as Lapavitsas contends, that the attempt to locate money’s origin with
'the social invention of an abstract unit of account is beset with problems' (Lapavitsas 2005: 396); but these are not as serious as the analytical incoherence which is encountered in his alternative.

At the outset of the critique, Lapavitsas impugns my scholarship by suggesting that I am unaware of ‘better developed antecedents of his preferred alternative approach to money’ and cites James Steuart as an example of my ignorance (Lapavitsas 2005: 395-6). However, Steuart appears twice in *The Nature of Money* (40, 45). I also refer to others as discussed in Einaudi’s seminal essay, ‘The theory of imaginary money from Charlemagne to the French Revolution’ (Einaudi 1953 [1936]). Of course, the most notable antecedent is Keynes.

Lapavitsas then points to three specific problems in trying to ‘associate money’s origins with the social invention of an abstract money of account’. First, he again merely asserts that my linking of money of account to a credit theory of money is ‘extremely tenuous’ and that my ‘[a]ssigning exceptional theoretical importance to money as a unit of account in credit relations is arbitrary and misleading’ (Lapavitsas 2005: 396). This passage also displays confusions based on a misunderstanding of the credit theory of money. Time cannot be devoted here to clarification, but full expositions of the modern version of theory are to be found in Ingham (2004) and Wray (2004). A brief reiteration should suffice: regardless of form and media of transmission, all money is constituted by social relations of credit denominated in a measure of value; money is a credit or claim on goods priced in the same, and a means of discharging debt contracts so denominated. A monetary space is one in which all prices and debts are denominated in a single money of account. Holders of the media – or, more typically today, of general purchasing power in bank accounts – possess the credits that can be transmitted for the purchase of goods and cancellation of debts. Conversely, the credits are emitted as a liability (debt) by the issuers, as explained above. Money cannot be created without the creation of debt. But not all credit is money. My personal acknowledgment of debt in the form of a promise of deferred payment/ setlement (IOU) of the credit extended to me by my particular creditor is not readily transferable. That is to say, it cannot be used by her to pay an anonymous third party.

In order to cut through the common-sense, but entirely misleading, distinction between money and credit that clouds our understanding of the nature of money, it is helpful to consider coins and notes as ‘portable credit/debt’ (Gardiner 1993, 2004). A coin (transferable credit) is handed over to cancel the debt incurred in the contract to buy a newspaper and is accepted because it is a credit for the next purchase in the same sovereign monetary space. The distinction between ‘money’ and ‘credit’ is false, as Simmel explains.

[M]oney is only a claim upon society. . . . It has been argued against this theory, that metallic money involves credit, that credit creates a liability, whereas
metallic money payment liquidates any liability; but this argument overlooks the fact that the liquidation of the individual’s liability may still involve an obligation for the community. The liquidation of every private obligation by money means that the community now assumes this obligation to the creditor.

(Simmel 1978 [1907]: 177)

Money is transferable credit. In this regard, it is also useful to note Gardiner’s further distinction between ‘primary credit’ (simple deferred payment) and ‘intermediated credit’ by which debts can be settled with the use of the credits emitted by an intermediary issuer (Gardiner 1993, 2004). These have myriad forms and media of transmission: coins and notes from mints, cheques, giro and credit card clearance from banks, etc. And, to repeat, we know that they are all money with a specific and identifiable power of purchase that corresponds to price lists because both sides (debt-credit) are described by a money of account.

Second, Lapavitsas’s charge that ‘there is no unambiguous evidence of the existence of a purely abstract unit of account’ (2005: 396) is patently groundless, and appears to stem from an elementary misunderstanding of the process of abstraction, which has bedevilled the analysis of money through the ages. My case, it is contended, needs to demonstrate the ‘existence of money of account that did not originally function as means of exchange, i.e. money of account with purely ideal units, products of human consciousness alone’ (Lapavitsas 2005: 396). The Babylonian example should suffice as an answer. To be sure, real fields of barley (gur) and real silver by weight (shekel) existed, but their identity as gurs and shekels with a specific equivalence was the result of a process of abstraction by human consciousness. That is to say, it is the equivalence that is abstract. This was not any field of barley, but a quantity declared to be appropriate to feed a family of a certain class for a month — that is to say, an ideal field. Moreover, neither fields of barley nor shekel weights of silver circulated as media of exchange. Lapavitsas displays the source of his confusion in his contention that recent work ‘only succeeds in showing that units of account in Babylon and elsewhere were quantities of silver and barley’ (Lapavitsas 2005: 397, emphasis added). The money of account was an abstractly established constant equivalence; that is to say, the issue is not one of quantities of commodities, but, their authoritatively declared relationship.

Evidence for the historical origin of money of account in the scales of value used to assess social and political obligations (debts) in early preliterate society, as expressed in wergeld, is sparse — as Lapavitsas points out. But, the grounds for this hypothesis are far stronger than those for the economic exchange conjecture favoured by Lapavitsas and orthodox economists. In fact, there is absolutely no evidence for the origins of money in exchange. Aside from the logical difficulties with this explanation as outlined above, the idea that money of account might have originated in wergeld institutions is more consistent with what we do know about early society. For a thorough analysis, see Grierson
(1977) whose immense scholarship Lapavitsas brushes aside. (On the pre-history and anthropology of money’s origins in the payment of social and political obligations, see also Aglietta and Orléan (1998) and Wray (2004).)

The third related point of criticism of my ‘hapless search’ offers nothing more in the way of argument than a reference to Marx’s dismissal of Steuart’s theory. It is possible, according to Marx, to measure value and establish prices with abstract ideal money, but only ‘the wildest theories’ would conclude that actual value can be deduced from the ideal measure of prices (Lapavitsas 2005: 397, emphasis added). Here we get to the nub of the issue and the source of confusion: the seemingly intractable problem of value and price. I say with much relief and not a little dissembling that space prevents an attempt to resolve it here, but some effort must be made towards greater analytical clarity. To do this, it is necessary to reproduce Lapavitsas’s argument in some detail:

Money acts initially as ideal measure of value . . . [and] is only a first step in the process of exchange . . . at some point value must also be measured in practice and rendered into actual price. . . . [T]he transformation of ideal into actual prices has nothing to do with ideal money units, and depends entirely on actual money.

(Lapavitsas 2005: 397–8, emphasis added)

Bearing in mind our discussion of the impossibility of establishing a universally equivalent value in exchange and Keynes’s contention that money is that which answers the description of money, what is the difference between ideal money and actual money? Lapavitsas’s answer is based on Marx’s penetrating critique of classical economics and distinction between measure of value and standard of price (Marx 1976 [1867]: 192), but he omits the crucial element that would have given it coherence — that is, the labour theory of value.

Ricardo, for example, had maintained that there could be ‘no unerring measure of either length, of weight, of time or of value unless there be some object in nature to which the standard itself can be referred’ (quoted in Ingham 2004: 15). In the first place, however, measures need not consist of the ‘nature’ of that which is measured — measures of length need not be long, measures of weight need not be heavy, and money things, described by a measure of value, need not consist of a ‘natural’ valuable material such as precious metal (see Simmel 1978 [1907]; Carruthers and Babb 1996). None the less, it is the case that some measures — such as cubit (forearm) and yard (stride) — are derived from standard length parts of the body. But, values that are attributed socially and expressed numerically as prices are not natural in this sense.

Marx successfully unmasked classical economics’ ideological identification of the money price of a supposedly natural commodity such as gold with an absolute and natural standard of value. He replaced it with his version of the labour theory of value. Gold coin has value because it has to be mined and minted and consequently it can have an equivalence with other commodities because they are all ‘congealed quantities of human labour’ (Marx 1976: 141). The distinction between measure of value (embodiment of
objective labour value) and standard of price (money of account) makes sense only if there exists such an absolute measure anchored in an absolute value. But to repeat: only Marx’s terminological framework remains in Lapavitsas’s analysis; the linchpin transcendental labour value has been replaced by the value of a commodity established by exchange, with all the attendant problems outlined above.

In a manner that paralleled physics’ search, in the early twentieth century, for a theory to deal with the loss of Newtonian certainty to the flux of relativity, Simmel struggled to establish a new conception of money. For him, money expressed ‘the distilled exchangeability of objects with all others . . . the relation between things’ (Simmel 1978 [1907]: 124, emphasis in original). But the flux of exchange relations could not, in itself, produce the stable value with which to measure the relativities (Simmel 1978 [1907]: 124). Following Simmel, Orléan refers to money as autoreférentielle; that is to say, the value of money is that which money measures—an abstract quantity of purchasing and debt-discharging power (Simmel 1978 [1907]: 122; Aglietta and Orléan 1998, 2002; see also Searle 1995). The actual value at any point in time can be established, not without difficulty, by arbitrary price indices. But, money also transports abstract value through time into an uncertain— that is, unknowable— future. How is this possible? How is this maintained in the absence of a natural or social absolute linchpin value and the inability of the process of exchange to produce one? In brief, it is a matter of maintaining trust and scarcity. For example, a precious metal standard is a promise made by the issuers to maintain the exchange value of the monetary unit of account (and of all those forms and media of transmission that conform to it) in relation to a fixed price of a given weight of metal. In this case, monetary scarcity is in part naturally determined by physical scarcity. Today’s ‘supply’ of money is located in the bank deposits that represent the debts contracted by governments, firms and individuals. In effect, monetary authorities now promise to maintain the purchasing power of the abstract value by manipulating, through changes in interest rates, the willingness to borrow, thereby making the creation of debt (and therefore money) ‘scarce’ (see Ingham 2004).

Dodd: the duality of money, the euro and the state

It is astonishing that Dodd should unwittingly offer this well-established distinction between money of account and money media as ‘a much needed analytical refinement to the sociology of money’ and try to establish that I am unaware of its significance (Dodd 2005: 558). He announces that all money should be regarded as ‘dual’— as money of account and monetary media; and believes that ‘[t]hese separate aspects of money tend to be conflated within the extant literature’ (Dodd 2005: 559). However, as I have already made abundantly clear above and explain at length in The Nature of Money (see especially Chapter 4), the distinction between money of account/measure
of value and media of exchange and transmission of the denominated abstract value is fundamental to my own analytical refinement, as it has been to those of many others over the centuries (for example, see Knapp 1973 [1924]; Keynes 1930; Schumpeter 1994 [1954]; Wood 2002; Einaudi 1956 [1936]; Hoover 1996; Innes 1913, 1914; Hawtrey 1919; Wray 1998, 2004; Smithin 2003).

Armed with his ‘discovery’, Dodd then sets it to work in two interrelated discussions: first, in an attempt to elucidate what he believes are two recent developments that are changing the nature of money; and, second, in an interpretation of the euro. The use he makes of the distinction is clearly the most important side of the issue, but, given the space that he devotes to the charge that my work is marred by serious problems, it is necessary to set matters straight.

If Dodd had read the first few pages of Keynes’s *A Treatise on Money* with care, he might have avoided the claim for originality in introducing us to the ‘duality’ of money. In defining money of account as ‘the scheme in which prices are expressed: for example, dollars, airmiles [*sic*]’ (Dodd, 2005: 578), he cites my reference in *The Nature of Money* to Keynes’s contention that money of account is the ‘primary concept in a theory of money’. 6 (That is to say, he does not cite its original source in the opening sentence of *A Treatise on Money* (Keynes 1930: 3).) Moreover, the crisp distinction between money of account and money media — ‘the first being the title or description and the second the thing that answers to the description’ (Keynes 1930: 4) — is mistakenly attributed to Keith Hart (Dodd 2005: 574). Careful scholarship would also have revealed Keynes’s elegant formulation of the very point that Dodd claims as his own ‘much needed’ refinement: ‘if the same thing always answered to the same description, the distinction would have no practical interest. But if the thing can change, whilst the description remains the same, then the distinction can be highly significant’ (Keynes 1930: 4).

As I have explained, money of account is ‘primary’ because without it the other ‘things’, or ‘money stuff’ — coins, notes, credit cards — would not have the quality of ‘moneyness’. The *specific* quality of money cannot be derived from mere exchangeability or value storage and transportation. Other things can have these properties, but these in themselves would not enable the construction of viable price lists and debt contracts. ‘The most important fact of all’ about money is ‘the possibility of monetary calculation’ (Weber 1978: 80–1). But, I have not advanced the argument that money of account is the ‘single defining characteristic of money’, as Dodd alleges in one of several misrepresentations (Dodd 2005: 574).7 My own statement of money’s ‘dual’ nature in *The Nature of Money* is as follows:

The test of ‘moneyness’ depends on the satisfaction of both of two conditions. These describe the specific functions that are assigned socially and politically in a process whereby money becomes an institutional fact (Searle 1995). Money is uniquely specified as a *measure of abstract value* (money of account) (Keynes 1930;
Grierson 1977; Hicks 1989; Hoover 1996); and as a means of storing and transporting this abstract value (for means of final payment or settlement of debt. (Ingham 2004: 70)

In the light of this quotation and without the support of a precise textual reference, it is a rank misrepresentation to say ‘to insist that what Ingham calls “money stuff”’ is irrelevant to a sociological understanding of money simply compounds the category error that he wants to avoid’ (Dodd 2005: 564, emphasis added).

My argument that money of account cannot be readily established by exchange (Ingham 2004: 74–7) and, consequently, that it always has an authoritative foundation is also contorted by Dodd. With the ‘homogenization’ of money (the use of money outside its country of origin) and its ‘diversification’ (proliferation of alternative moneys), he tells us that we need ‘to tighten our conceptual vocabulary’ (Dodd 2005: 561). Displaying historical naivety and ignorance of monetary theory, he announces that ‘it is no longer possible to think of “money” as synonymous with “currency”’ (Dodd 2005: 561, emphasis added). Somehow Dodd believes that I do and contends that this has serious consequences for my analysis, which he construes as follows. The generic quality of ‘moneyness’ (measure and media of abstract value, as stated above) is to be found in a money of account imposed by an authority such as a state. States also issue currency. Therefore, Ingham’s analysis ‘reduces “money” to state-issued currency’ (Dodd 2005: 561). Aside from any misconstruction, Dodd’s argument is illogical: the conclusion does not follow from the premises.

It is clear that my argument is misunderstood by Dodd. The important side of the matter is not merely that states emit currency, but that it is described as money by their money of account. But this also describes other media of exchange and transmission that states do not produce – for example, private bank notes and bills of exchange in earlier times and private cheques and credit cards today. Dodd confuses the substantive and the analytical – that is, the ‘historical’ and the ‘logical’. States and their currencies are not essential to the analytical, or logical, argument about the primacy of money of account; other authorities can exist. Indeed, historical evidence shows how networks of traders formed associations through which they constructed and imposed, by authority, their own money of account for transactions, often in opposition to a monarch’s claim to absolute sovereignty (see the exhaustive account of the early modern period in Europe in Boyer-Xambeu et al. (1996), also the discussion in Ingham (2004: ch. 6)). But they were chronically unstable.

Historically, states have been most successful authorities for establishing and maintaining a stable money of account, but they vary in their ability to enforce it, as they also do in their claims for legitimacy and monopolization of coercion. For example, I would argue that the monetary anarchy produced by the existence of competing moneys of account with their separate authoritative foundations is important in explaining China’s economic retardation after the
sixteenth century (on Chinese monetary conditions, see von Glahn (1996) and Fetter (1936)). Woodruff’s (1999) masterly analysis of post-Soviet Russia shows how the state lost the power to impose its money of account on all transactions, giving rise to alternative monetary media. Despite the textual evidence, Dodd somehow sees fit to claim that I believe that only state money is ‘complete money’, and, therefore, to allege that I conflate ‘money’ and ‘currency’ and, consequently, do not see that a money of account can exist without the latter (Dodd 2005: 561). In fact, the converse is repeatedly stated throughout The Nature of Money – hence Lapavitsas’s critique that I locate the ‘logical’ origins of money in an abstraction. Again, the Babylonian case is significant because monetary calculation existed without any currency long before the first use of coins. Furthermore, what Marc Bloch referred to as the décrochement of money of account and currency in medieval Europe plays a crucial part in my explanation of the development of modern capitalist credit money (Ingham 2004: 4–5, 50–1, ch. 6).

Finally, it should also be noted that Dodd’s version of the well-established distinction is loosely constructed. His definition that ‘[m]onetary media consist of the objects that we use as money’ is simply a tautology (Dodd 2005: 563), and consequently the important questions remain unanswered. First, how do we know that all the media are money? (Dodd has frequent recourse to the use of inverted commas – ‘money’, ‘currency’, etc., which I take to be an indication of his conceptual uncertainty.) Second, as I have already noted, media are imprecisely specified in his ‘refinement’. Are all objects involved in monetary transactions monetary media? In Dodd’s lexicon, where is the money in a credit card transaction and a BACS transfer? These are not media of exchange, but media of transmission. And where is the abstract value located in this transmission? Pacioli’s fifteenth-century treatise, which lists nine media for transferring money, would be a good place to start thinking about the question.

Dodd’s insecure grasp of the nature of money is apparent in the belief which he shares with Hart that e-money and finance gained through the Internet suggest ‘that money is increasingly being created as personal credit’ (Dodd 2005: 564). Shifting the focus from technological media to the underlying social relations by which money is created, we are able to see that the changes that Dodd and Hart believe to be in train are both theoretically misidentified and empirically questionable. On the one hand, it is oxymoronic to view ‘personal credit’ as money. This would make sense only if all agents were able to issue their own liabilities (IOUs) and get them widely accepted as a transferable means of payment. The process by which personal credit does in fact become money is typical of capitalist economies. But the private debts (liabilities) are transformed into public money by the banking system and its articulation with state debts (liabilities) via a central bank (see Ingham 2004: ch. 7). It is true that some department store cards are not restricted to transactions with the issuer, but the debts are ultimately discharged with the means of payment at the top of the hierarchy of media in the monetary space. In capitalist economies, this ‘top’ means of payment consists in the issue of a
state’s mint and in its liabilities, drawn on the central bank, which are injected into the economy in payment for the goods and services that the state purchases. Moreover, Dodd’s view, following Hart, that the expansion of credit instruments ‘has empowered consumers’ is clearly open to a contradictory interpretation that has more empirical support. That is to say, personal debt continues to expand at an unprecedented rate as consumers fall increasingly in thrall to credit card companies and banks.

I can only assume that Dodd’s critique was deemed necessary to add weight to his substantive arguments that, first, the ‘homogenization’ and ‘diversification’ of money are symptomatic of the diminishing ability of contemporary states and their central banks to control flows of money, and second, that the euro is a ‘hybrid’ money. My scepticism about any recent significant general change in state control of money is twofold (Ingham 2004: 175–87). Stable moneys of account cannot be produced exclusively and spontaneously by economic exchange and the historical generalization that the successful creation of stable monetary spaces has been the work of states is indisputable. Money is an expression of impersonal trust and legitimacy in a sovereign monetary space which, for example, enables the ‘foreign’ agents in Lapavitsas’s model to engage in genuinely market exchange.

What Dodd calls ‘homogenization’ and ‘diversification’ is as old as money itself, as is the so-called ‘duality’ of money. Strong moneys have always been used to denominate transactions and serve as means of payment outside their territory of origin and have created monetary spaces that that are not isomorphic with the issuing authority’s territorial space. And, on the other hand, as I have indicated, complete monetary monopolization has been the exception rather than the rule historically. Moreover, ‘homogenization’ and ‘diversification’ are not processes sui generis, as Dodd’s mode of argumentation implies; they are rather descriptions of concrete developments that cannot be grasped without an understanding of politics. ‘Dollarization’ in which, for example, over 70 per cent of all international transactions are denominated in the US dollar is not difficult to explain, whether or not the distinction between money of account and monetary media is uppermost in our minds. Most important, however, is Dodd’s inability to see that, while this does involve a loss of sovereignty for some states, it simultaneously increases the domination of the global economy by the US state and its corporations (Gowan 1999), in exactly the same way that the gold-sterling standard did for the Bank of England.

Diversification of monetary media within a claimed sovereign monetary space is ubiquitous, and the recrudescence of local media of exchange has been facilitated, but not caused, by modern information and communications technology. I did not use the adjective ‘emaciated’ to describe LETS and other alternative media (Dodd 2005: 561). Rather, I argued, first, that the narrowly economic relations in which these media are embedded are, in themselves, unlikely to become a viable, long-term basis for a stable monetary space (Ingham 2004: 187). Second, unless a state loses power and legitimacy, these diverse media will remain near the bottom of the hierarchy of media to be
found in all societies (see Bell 2001). Monetary ‘diversification’ is most extensive where state control of the money of account has been weakened or lost, and monetary anarchy invariably ensues. Modern examples of this proliferation of alternative media of exchange are legion: Afghanistan, post-Communist Russia, Argentina and most dramatically in the hyperinflation in Germany after the First World War (see Orléan 2005).

Recent sociological interest in the ‘diversification’ of money at the informal level appears to be related to more general claims about the potential of the Internet for individual empowerment, the creation of a ‘network society’, the potential of globalization for ‘cosmopolitan democracy’ and so on. These wider issues cannot be pursued here, but I believe that much contemporary sociology has lost sight of the centrality of the political (see the critique of global cosmopolitanism in Hawthorn (2000)). This myopia is also evident in Dodd’s interpretation of the euro

He believes that we can conceive of the euro as a ‘hybrid currency’ because between 1999 and 2002 the euro was a supra-national money of account to which different national monetary media – franc, mark, lira, etc. – were fixed at parity. Since 2002, euro media of exchange have displaced the national currencies, but significant national variations persist in the design of the notes and coins (Dodd 2005: 566). But any ‘hybrid’ character of the euro cannot derive from the distinction between the two properties of money, as all modern monetary systems are ‘hybrid’ or ‘dual’ in this sense. Once again: a medium of exchange cannot be money unless it is described by a money of account, and, further, many different media answer the description in modern societies.

Perhaps it is merely coincidental that I have also used the term ‘hybridization’ to describe the development of capitalist credit money as the integration of two separate competing sovereign monetary spaces in early modern Europe – that is, networks of private bank money and public coinage currency (Ingham 2004: 126–31). Similarly, one of the foremost authorities on the euro, Charles Goodhart, explains the exceptional nature of the euro in terms of its dual, but ambiguous, sovereignty. Dodd makes no reference to Goodhart’s view that the euro’s uniqueness consists in the equivocal monetary sovereignty of a common currency coexisting with independent national budgets and also a common central bank that lacks a clearly constituted authority (Goodhart 1998; Bell and Nell 2003).

In his conclusion, Dodd seems to be perplexed and uncertain. At one point, he goes so far as to suggest that ‘[t]he terms of the present debates on money suggest that any attempt to build a coherent conception of money is bound to fail’ (Dodd 2005: 571). Why should the particular phenomenon of money be excluded from the search for conceptual coherence? Does this also apply to his avowed ‘analytical refinement’? What are we to understand by his assertion that the problem is not that ‘we cannot agree on a single definition of money in theoretical terms’, but that ‘no single definition of money will suffice on empirical grounds’ (Dodd 2005: 571)? Again, Dodd appears unable distinguish
the analytical from the substantive and to escape the common-sense categorization of money as a ‘thing’. The solution to the self-inflicted conundrum is quite simple: money (abstract measure of value/money of account and store of purchasing power) has no single empirical referent as medium of exchange and transmission. It is indeed curious that Dodd should accuse me of conflating the embodiment of money in the form of currency with its generic quality as the value of purchasing power measured in the terms of its own abstraction when this is precisely what I set out to avoid and have expressed clearly enough to be properly understood and criticized by Lapavitsas. Finally, in a reference to Simmel, Dodd almost glimpses that the common-sense preoccupation with material media is the barrier to a better understanding of money (Dodd 2005: 572). For Simmel, money is an idea, but it is a serious misunderstanding of his work to think that money conceived as the idea of ‘a universal means of quantifying value . . . can never empirically exist’ (Dodd 2005: 572). Money exists as a socially constructed and sustained symbolic abstraction – that is, an idea to which many different media of exchange and transmission may, by decree or convention, correspond. It is, as Simmel said, ‘the value of things without the things themselves’ (Simmel 1978 [1907]: 124), which Dodd misleadingly refers to as a ‘fiction’. But this is not to say that it does not exist. The idea of money is real in its consequences; without it we could not construct our social world.

Conclusion – a common thread?

Notwithstanding the differences, it is possible to discern a common problem in the two critiques. Both fail to understand that money is a pure symbol of abstract value measured by its own scale. As many before them, they confuse the scale with the actual instrument. Lapavitsas searches for the value of money in the value of a commodity, and Dodd is confounded by myriad representations of what Knapp (1973) [1924]) called the ‘valuableness’ that is identified by a single money of account. Just as an instrument for measuring length may be long, a monetary instrument denominated in a money of account may comprise a valuable commodity; and there exist technologically different measures and instruments. But, as we have noted, these are not the essential matter, as laser beams and bank giros attest. The important fact is that the commodity/object being measured and the money/measuring instrument share the same abstractly attributed quality – length in metres or value in euros.

As we have noted, the processes for establishing the dimensions of physical properties and the value of commodities as expressed in prices are different in crucially important ways. The abstract quality of valuableness is given a more precise substantive expression as purchasing power, at any point in time, by the arbitrary construction of a price index. But, as relative prices change through a radically uncertain future, this power is provisional. In Mirowski’s memorable phrase, society’s problem ‘is to find some means to maintain the
working fiction of a monetary standard’ (1991: 579). The really difficult question is to understand the ways in which this is accomplished, or not as the case may be.

Notes

1 It is apparent that the terms of the dispute have a scientific and ideological import that has a much wider resonance than the particular question of money, which, perhaps, accounts to some extent for the persistence of the antinomies (Ingham 2005: xi–xiii).
2 In Marc Bloch’s (1954 [1936]: 77) counterintuitive formulation, money would disappear if everyone paid their debts simultaneously.
3 Keynes, with characteristic whimsy, saw the futility of the search for the ‘earliest beginnings’ of money which ‘are lost in the mists when the ice was melting, and may well stretch back into the paradisaic intervals in human history of the interglacial periods, when the weather was delightful and the mind free to be fertile of new ideas – in the Islands of the Hesperides or Atlantis or some Eden of Central Asia’ (1930: 13).
4 Even here there could be quite significant local variations unless these were standardized by an authority – usually the state.
5 If Dodd means only the ‘extant’ sociological literature, then that is a different matter, which incidentally reinforces the arguments that I have made about sociology’s loss of direction with regard to money.
6 In passing it should be noted that Dodd persists in erroneously classing ‘airmiles’ as a form of money – both money of account and media. They are, rather, credits with a restricted, not universal, exchange value fixed in a money of account – dollars, euros, etc. They do not fulfil one of the essential criteria for money; that is, the assignability, or transferability, which makes them universally exchangeable (perfectly liquid) in a given monetary space.
7 For example, Dodd also writes: ‘Ingham has suggested that the theory of optimum currency areas . . . was used as a primary justification for introducing the euro’ and that I am mistaken because most economists agreed that the eurozone was not an optimum currency area. I wrote: ‘Justification for the single currency, as the logical counterpart to the creation of a single market, is often drawn from optimum currency area (OCA) theory.’ I go on to say that the eurozone was not an optimum currency area, but that the theory had rhetorical significance in drawing attention to the putative benefits of reduced transaction costs, etc. (Ingham 2004: 191–2).
8 This is, of course, also the Hayekian vision of purely market money. It would be anarchy.
9 Economists refer to this as the ‘endogenous’ creation of money (Ingham 2004: 52–5).

References

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