BECAUSE PEOPLE DIE! ON MONEY, SOVEREIGNTY, AND MYTHICAL DEBT

Michel Aglietta, *Money. 5,000 Years of Debt and Power* (London, Verso, 2018)

It only takes a global-scale financial crisis with enormous social impact to get the social sciences to investigate one of modern society's crucial institutions: money. While one can find several complaints about sociology's neglect of money in the last decades of the 20th century, "social science studies on money have exploded over the last ten to fifteen years."[1] Virtually every attempt contributing to this explosion challenges the orthodox economic notion of money as a "mere" means of exchange that covers real economic activity as a "veil" without influencing it in the long run. Now, Michel Aglietta, who has been writing about money for decades, mostly in French, presents the essence of his long-time thinking in a monumental English volume titled "Money: 5,000 Years of Debt and Power."

With his history of 5,000 years of debt and power, Aglietta intends to deliver a substantial critique of the orthodox view of money that he calls a "dogmatic cathedral called pure economics" [27], the long-time dominant economic theory and policy paradigm operating on the basis of assumptions regarding general equilibrium mechanism and individual decisions guided by rational expectations. Crucial to his critique is the rejection of an argumentative pillar of this cathedral called the assumed "neutrality" of money, meaning that monetary changes have no long-term effects on price structure and economic dynamics. The hypothesis of money's neutrality states that only relative differences in the valuation of commodities matter, not the nominal pricing of the said commodities. This paradigm of equilibrium economics in general and the notion of neutral money in particular have been brutally beaten by sociologists, political economists, and heterodox economists over the past decade. Now, Aglietta delivers several fatalities to this cathedral.[2]

[1] John Wilkinson, 2019, "An Overview of German New Economic Sociology and the Contribution of the Max Planck Institute for the Study of Societies" (MPIfG Discussion Paper 19/3): 20.

[2] A "fatality" is a feature of the infamously brutal video game franchise "Mortal Kombat." The signature of this series of fighting games is the possibility of delivering a very graphic finishing move to the opponent after he or she is already defeated.

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He does so by a fascinating combination of theoretical reasoning and detailed historical analysis. His "5,000 years" of monetary history encompasses not just transformations of monetary media but also detailed accounts of political conflicts and changes, approaches of recent financial and current political and environmental crises, the underlying social and economic theories and much more. Apart from a long section concerned with ancient and medieval coin-based monetary systems, most things within these 5,000 years seem to happen within the "long 20th century" and almost all of them in Europe and the US (the original title says nothing about the 5,000 years, though, so this remark addresses the publisher).

However, one should not read the book as a comprehensive history but as an analysis of the present. Aglietta is trying to show that we are still struggling with the difficulties that result from untying money from gold; this untying poses an unsolved problem, especially when it comes to international money, a category that includes the euro, which Aglietta sees as a form of international coordination disguised as a "common" currency. The book examines the social foundations of monetary orders to better understand the challenges of the 20th and 21st centuries, particularly regarding international money. In doing so, Aglietta can shed some light on the impending demise of the US dollar as a global reserve money and the struggles with European integration.

This investigation is a beautiful quarry for valuable insights. However, it is not always easy to carve them out and place them in a broader understanding because Aglietta oscillates between highly detailed economic analysis (criticizing sophisticated economic models, assumptions, and mechanisms represented in complex formulas), historical micro-details, and ambitious argumentative generalizations. Its incredibly broad scope makes the book hugely original. Quite unfairly, though, this review does not attempt to report on the rich details of this history but raises some questions regarding Aglietta's theoretical approach. His account of a monetarized economy is based on a notion of payments that closely links money to value, debt (two types of debt, actually), and (state) sovereignty. All these notions provoke questions.

A theory of the economy, or so Aglietta argues, is essentially a theory of value [4]. Consequently, an understanding of a monetarized economy depends on how one conceptualizes the connection between money and value. Mainstream economics textbooks like to refer to individuals, marginal utility, and ideal markets to explain that

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economic value is determined by the amount of money people are willing to give for acquiring an additional quantity of a particular good. In this marginal economics, economic value is a more-or-less objective fact referring to relations between rationally calculated preferences and supply, realized in exchange. Curiously, Aglietta initially seems to apply a similar notion. He explains that money is not as an asset but the "principle of value" [32] governing the economic activity of a given group. As such, money *creates* value: "The operation through which such goods acquire a value is payment" [31], or, even more explicitly, "exchange for money—that is, payment—is what produces value" [32].

While economic value is here identified with a property created in exchange, it is not exchange value though (i.e., the market price). Instead, it is some form of collective reward: while the "value of market objects" is "created and validated by a flow of money," this validation is a cooperative process: "in the act of payment, the collectivity [...] gives back to each of its members what it judges it has received from that member through her activity." [33]. Who now thinks of Simmel and his formula of money as a collective credit might be right. Money, the system providing the means to validate value, is a bond that "links each member of the social group to the whole" [31]. Whoever can sell a good or service is acknowledged as a legitimate creditor of the social group, and the debt is considered settled instantly. Payment, therefore, is a "mode of recognition" of obligations [39], and "monetary recognition is a resolution of debts through payments" [39].

Aglietta argues that the creation and settlement of debts between people cannot work on its own; those horizontal debt contracts need to be anchored in a vertical debt between individuals and the group. Young people, he explains, sell the surplus of their production for money, which they use to obtain the next generation's excess production when they grow older. This system does not work on individual promises: "private credits cannot be transferred between successive generations" because when this private debt is due, "the retired generation will have died away" [62]. Therefore, the generations are connected by something Aglietta calls "life debt," an intergenerational bond that "results from the opposition between mortality and immortality" [62] and is organized through the monetary system linked to a sovereign who symbolized this life debt. In short, "money is necessary because individuals die" [64].

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The underlying assumption behind this thesis is the existence of some form of generational uncertainty. Aglietta assumes that a generation that accumulates money bears the risk that their children will not accept their means of payment in return [63]. This generational tension is prevented by the existence of "some sovereign authority to which all generations are indebted" [63]. In modern times, this authority is the nation-state. Fiscal relations are something like modern-day versions of life debt that connect individuals to the sovereign and therefore to each other (especially the inter-generational "other"). "Adult individuals honor this debt in the form of taxes" [63]. Paying taxes means honoring the elderly and the life debt. It is this process of acknowledging life debts that keeps money alive.

The notion of money as a social system that enables and regulates the memory and settlement of obligations resonates with a vivid development in monetary theory that could be labeled (following Schumpeter) *credit theories of money*, a theoretical tradition encompassing, but not limited to, the school of chartalism with its current superstar offspring Modern Monetary Theory (MMT). In this tradition, the history of money is told as a history of debt and power.[3] These approaches see money as a power-invested system of debt and debt settlement and, therefore, analyze monetarized economies as a social practice of recording and redeeming obligations towards each other. Aglietta, in a way, is quite close to this "accounting view on money."[4] Apart from Bezemer, at least as far as I can see, all these publications have been recognized and debated prior to the original release of the book under review in 2016. Curiously, none of them are mentioned in the bibliography.

Of course, it is unfair to pinpoint some missing literature; we all overlook essential publications, and I myself published a book on money in 2017 ignoring Desan's history from 2014, Perry Mehrling, and others on that list in footnote number 3. But it is nevertheless worth mentioning here because virtually all the publications mentioned above, which form a large share of the "explosion" of money

[3] For example, L. Randall Wray, 1998, *Understanding Modern Money* (Edward Elgar); Stephanie Bell, 2001, "The Role of the State and the Hierarchy of Money," *Cambridge Journal of Economics*, 25 (2): 149-163; Geoffrey Ingham, 2004, *The Nature of Money* (Polity Press); Perry Mehrling, 2011, *The New Lombard Street. How the Fed Became the Dealer of Last Resort* (Princeton University Press); or, in one of the most compelling histories of money, in my opinion, Christine Desan, 2014, *Making Money. Coin, Currency, and the Coming of Capitalism* (Oxford University Press).

[4] Dirk Bezemer, 2016, "Towards an 'Accounting View' on Money, Banking and the Macroeconomy: History, Empirics, Theory," *Cambridge Journal of Economics,* 40: 1275-1295.

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research in the last 15 years, are not only explicitly concerned with the relationship between money and debt (or credit) but also with the *hierarchies* of credit and debt. These varieties of the credit theory of money think of "money" not as the most exchangeable (i.e., liquid) asset or a social means or medium but as the social practice of balancing each other's books with debts. Perry Mehrling, for example, argues that modern money is a web of credit-debit relations that enable each other by keeping balance sheets in balance, forming an entity he calls the "money grid."[5] This grid of obligations consists of different sorts of credit. Those credits differ with regard to their ability to settle other obligations—higher raking credits are able to settle more types of debts than lower ranking ones.

On the one hand, Aglietta attempts to "sociologize" this heterodox, but still economic perspective, by switching the frame of reference. For him, while monetary hierarchies are de facto linked to nation-states, this is just an expression of a much more fundamental foundation of money in society. Money became (mainly) national in modern economies because societies reimagined themselves as "peoples" represented by nation-states. Accordingly, monetary hierarchies have, in Aglietta's version, much to do with individuals identifying and acting as members of a social group. With this modification of the frame of reference, Aglietta is successful in bringing social categories like generations into the debate about money, debt, hierarchy, and monetary sovereignty.

However, the applicability and persuasiveness of his life-debt-mortality matrix are debatable, to say the least. Aglietta's rather esoteric version of the hierarchical structure of monetary systems might have gained some clarity by engaging with the much more down-to-earth theories of monetary hierarchies referred to above. In its present form, it remains unsatisfying. I simply do not understand why the fundamental claim should be valid, i.e., that money exists because people die, or why this is an explanation for anything. One does not need to quote Heidegger to assume that perhaps even human beings exist (in a meaningful way as beings) because human bodies (i.e., humans as creatures) die. And why would a society of immortal strangers (who do not know much about the private creditworthiness of each individual) not be in need of liquidity, i.e., a reliable system to settle *types of* debts (not specific ones)?

[5] Perry Mehrling, 2017, "Financialization and its Discontents," *Finance and Society*, 3 (1): 1-10.

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In fact, the actual practices and mechanisms Aglietta refers to when analyzing money creation and payment mechanisms in great detail and across several different monetary orders are quite similar to the "accounting view" descriptions offered by credit theorists. Aglietta's empirical analyses are quite enlightening too! I simply fail to see the value of mystifying what is happening by applying concepts like "intergenerational bond (life debt)" [83] served by paying taxes or the necessity of everyone accepting "death as the supreme power" [66] for money to function. While many theorists of money would agree that we should analyze money, as Aglietta does, as a system to balance the books with hierarchies of credit, the whole honoring-the-elder-content appears to be a theoretical liability of the book that is never settled.

Monetary systems, Aglietta argues, are based on corresponding principles of sovereignty. The theoretical link between sovereignty and money is confidence. Aglietta claims that monetary orders function (or fail) because of three-tiered forms of confidence. At the base is methodical confidence, i.e., trust in the daily routines of establishing and settling debts. At the second level is hierarchical confidence "in the public institution responsible for the integrity of the payment system" [58]. Finally, there is ethical confidence, which refers to the legitimacy of ultimate liquidity, i.e., the recognition of the institutions issuing and managing the means of final settlement.

To understand what Aglietta means by these, it is best to read his analysis of the international gold standard in the seventh chapter. The gold standard was a social arrangement, where "minted gold—a form of money that was not the debt of any country—played the role of ultimate liquidity external to all countries" [296]. For centuries, convertibility of paper or book money, what Aglietta terms "scriptural money," was not something a political authority could easily abandon. To think of monetary tokens as claims on something material was part of the natural order of things; it was an ethical principle resonating with a political order that accepted kings and queens as equally "natural" sovereigns. "Convertibility into gold was, morally speaking, a categorical imperative" [145]. This ethical foundation of money as a part of a natural order of things is gone—and with it the (inextricably linked) foundation of sovereignty as a social bond constituting society [70].

The history of money, consequently, is told as the development of money orders and means of payment entangled with "transformations

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in the principles of sovereignty governing societies" [147].[6] With the demise of the imaginaries of the natural order as a foundation of ethical confidence, i.e., when "World War One laid waste to the idea that the natural order was the foundation of sovereignty" [147], modern societies ran into problems regarding the organization of money. The self-referential structure of democracies—the demos ruling the demos—had to be matched by forms of money with a comparable self-referential organization. Fiat money, whose origins Aglietta explores in several dimensions, is a unit of account that prices itself (without reference to material resources) and is "the name [...] of the issuing central bank's liabilities" [150]. The liabilities that are no longer claims on valuable assets of another type are now the final means to settle a debt and, therefore, modern economy's founding "principle of value." Fiat money consists of a hierarchy of bank liabilities, with private bank money being claims on central bank liabilities that can themselves (because of their hierarchical position) be used as means to settle horizontal private sector obligations. This self-referential system of paying off debts with other debts fits a society which imagines sovereignty as something that is grounded in the people's ability and right to be sovereign, not as a natural order of being.

In contemporary self-referential monetary systems (where we pay with hierarchical bank liabilities), independent central banks are the anchors of confidence [e.g., 160–162]; moreover, independent central banks are the "depositories" of "monetary sovereignty" [162]. That means it is their responsibility to keep money's purchasing power stable (which is different from keeping the natural order intact by exchanging deposits and cash for gold, as has been their task in previous monetary orders) and provide a basis for ethical confidence in the unit of account. Furthermore, the central banks keep the hierarchical trust alive by supplying the "money market with potentially unlimited sums of its own money, on conditions which it decides in a sovereign manner" [163].

[6] On the one hand, this history is full of political struggles: Roman emperors competing with money owners over the metallic content of coins, capitalist states structuring monetary institutions in accordance with the interest of bourgeois capital, and so on. But, on the other hand, the general tendency of the history of money seems to be depoliticized. Somehow, the development of the principles of sovereignty and monetary orders keeps its correlation up. Monetary orders somehow adapt to the upheavals of sovereignty principles, but the causal mechanisms remain a bit fuzzy, at least to me. Do we always just adjust our political and economic systems to the changing imaginaries of sovereignty?

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This stylization of central banks is close to that of the economic textbooks and self-descriptions of those institutions. However, it can be challenged, and I think it is fruitful to outline some possible paths as this discussion is absent from the book. First, we should ask ourselves who has confidence in the central banks. In Aglietta's view, the trust in money is based on the constitutional role of the central bank. But is trust in the central bank a valid sociological explanation for the functioning of a means of payment? Theorizing the operation of money with the help of a concept of trust, with the known institutions at the top of the pyramid of actors who are trusted, could amount to something of an expert's fallacy.[7] Is it not only a small minority of institutional investors for whom confidence in specific central banks plays a role in deciding for or against a currency? Most of us make our daily purchases without thinking about central banks. In fact, many people still believe that the government controls money or that it is backed by gold—even today![8] The claim that fiat money rests on confidence in central banks reflects the self-portrayal of these organizations, so we should be particularly careful when repeating them as sociological explanations.

The second source of doubt lies in the significance of private banks. Over the last decades, several studies and opinion pieces by central bankers, economists, and sociologists (in recent years) have pointed out the financial dependency of central banks in the horizontal dimension. Although their debts are hierarchically higher than the private bank debt used as a means of payment (vertical dimension), they have little influence on the volume of funds available. The money supply is determined by demand and private bank decisions regarding the creditworthiness and profitability of this demand. Private banks create money via a keystroke "out of thin air," and the central bank money supply follows this beat. Even if central banks try to produce more liquidity, as they have been extended over the past decade in what have been called "unconventional measures," their success depends on the demand and decisions of the private sector. So, while Aglietta identifies central banks as the personifications of the principles of sovereignty founding monetary orders, it seems to be

[7] Take this thesis as an example: "The abolition of the gold standard poses the problem of the legitimacy of monetary signs" [254]. For whom and in what manner? General money users? Investors? The academics trying to fit this bit of reality into their theories still oriented towards commodity money?

[8] Klaus Kraemer, 2019, "Geld als Institution. Eine Kritik der Vertrauenshypothese," *Mittelweg*, 36 28 (3-4): 50-74.

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a somewhat diminished form of "monetary sovereignty" these institutions have to offer.

Notably, and this constitutes the third and last point here, the "monetary sovereignty" of many central banks might be even more diminished than those in the major currency areas. In a globalized economy, where most economies depend on their success in acquiring US-central bank liabilities to trade, how "invested" with sovereignty are these "monetary dependent" central banks? Perhaps there is room to develop the theory in this direction.

Because money is intrinsically tied to sovereignty, international money cannot exist in a world of nation-states. Consequently, a large part of the book is concerned with global liquidity. Aglietta provides a detailed and sophisticated analysis of the end of the international gold standard and the rise and potential demise of the dollar's hegemony as a global reserve currency. He discusses potential upcoming competitors such as the euro, yuan, or transnational cryptocurrencies. Aglietta argues that the gold standard substituted the need for a central international authority successfully, but only because the social imaginary of natural order was still intact. Contemporary self-referential imaginaries of the social fabric and sovereignty are incapable of founding real international currency. Attempts to invent one after World War II (Keynes' "bancor" or the IWF's special drawing rights) failed. Instead, liabilities of a national central bank, the Federal Reserve Bank of the United States, are used as a global reserve currency.

Real international money would require a global society and a central authority. In times of financial distress, investors seek to stabilize their balance sheets by purchasing "safe assets," like US government bonds. But this is just a "search for a substitute for sovereignty," found "in the United States' political and military power" [340].[9] To build real international money, the global community would require a common social fabric. In Aglietta's approach, sovereignty, on the one hand, refers to someone's capability to provide enough liquidity to keep investors believing in the ability of debtors to

[9] This claim, however, would have benefited from evidence. In 2019, for example, government bonds in Germany, France, Japan, and some other countries offer negative yields to investors, who show a great demand, nevertheless. They pay to lend money to those countries, while the US still pays interest to its investors. Can this also be explained by military and political power? Does it mean that investors judge France to be more politically powerful than America? It might be sufficient to assume that people seek liquid assets that they expect others (regulators, markets, shareholders) to accept as legitimate ways to balance their books.

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repay their liabilities. On the other hand, it refers to a more general foundation of the universal acceptance of something as liquidity, i.e., as a legitimate means to settle debts (ethical confidence). This, again, is close to chartalist and MMT positions, which assume that a political authority's ability to command (tax) debts over the subjects under their rule (which turns the tokens that can settle tax obligations into means of settling private debts as well) is the social basis of modern monetary orders.[10] Aglietta, in contrast, understands sovereignty as something that is anchored in the social sphere, i.e., a more-or-less homogeneous belief system. It is only a particular imagination of belonging and the set of values shared by a group of individuals that enables society: "political power must be backed-up by an uncontested principle of sovereignty, meaning a representation of collective values in which the society's members identify the sources of their 'togetherness.'" [187] This conservative notion of a society based on the cooperation of its members who believe in the same values is controversial. This does not mean it is wrong, simply that it needs to be discussed, mainly because the transformation of money's founding principles of sovereignty forms the core of this book. Do societies, if they exist at all, function because people identify a shared source of their "togetherness"? It does not help that this notion of the social fabric is, again, loaded with the mythical mortality-immortality dialectic. It remains unclear to me what is to be gained from claims such as "sovereignty is founded on the postulate that while a society's members are mortal, the society itself is immortal" because the "ontological opposition between mortality and immortality is the source of a collective belief that unites a society's members" [126]. How could such an "ontological opposition" initiate a collective belief, if such a belief exists at all?

However, Aglietta deserves much credit for the fact that this framework enables him to highlight some interesting tensions in the international monetary system. For example, he traces politico-economic tensions in the eurozone to incompatible "styles" of the imaginaries of "togetherness" in France and Germany, indicated by this exemplary quote: "While in Germany universal suffrage flows from the law, in France, it is universal suffrage that institutes law" [366]. Differences like this prevent the European Union from being an actual society and, therefore, from being able to create a single

[10] Christine Desan, 2014, *Making Money. Coin, Currency, and the Coming of Capitalism* (Oxford, Oxford University Press).

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currency. This is, in fact, a valuable hint as sociologies of money and the European unification tend to theorize the euro as a supranational money. Alas, as hierarchical systems of bank liabilities, European currencies remain in national containers. Cash aside, one needs German bank liabilities to pay in Germany, with German Bundesbank's debts as the highest-ranking means of settlement. The euro only appears to be a unified form of money to its users. From a balance sheet perspective, it is organized as a set of *national* money grids. To overcome this deficit, the eurozone nations would have to adjust their imaginaries of togetherness and accept the union as an immortal whole, enabling our mortal existence (according to Aglietta).

The preceding indications of some theoretical challenges in Aglietta's monumental work should not be confused with an overall judgement. The book is an impressive resource for historical findings as well as for razor-sharp deconstruction of economic theorems. He deserves much recognition for his attempt to develop a sociologized version of a credit theory or balance sheet perspective on money. The extent to which this claim has been met, whether the book could have benefited from a more intensive examination of other approaches to money and sovereignty, or if it would have had to question its own social theoretical foundations more critically are worth further debate.

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