NOTES ON REVISITING THE CREDIT THEORY OF MONEY

Geoffrey Ingham

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I

My first visit was in 1996 in the article – 'Money is a social relation' (Ingham, 1996) where I asked the question: 'Is all money credit?' and answered that it was. To see money as 'credit' focused attention on the essential quality of money as a 'social relation', not a 'thing'. I must confess to not having spent much time recently on these questions. However, here I will reaffirm with some modification (and perhaps equivocation) my support for the related propositions:

(i) the absolute distinction between 'money' and 'credit' is misleading;

(ii) the search for a single general theory of money is a worthwhile activity and that a general credit theory is at least the leading contender.

In a recent draft paper Heiner Ganssmann (Ganssmann, 2009) has challenged the first proposition and Jean Cartelier has expressed doubts about his previous support for the second (Cartelier, 2007).

In essence, I contend that:

(i) all participants in a monetary system are involved in actual or potential debt/credit relations, denominated in the operative money of account;

(ii) these relations are settled by the transmission of abstract value (debt settling power), measured in the unit of account;

(iii) this involves a credit/claim in two senses: (a) the means of settlement is a credit for the holder and (b) a liability (debt) for the issuer.[1]

Monetary relations are structurally different from mere exchange relations mediated by tradable commodities (media of exchange). Money doesn't merely express the numerical values that emerge in commodity exchange; rather, money makes genuine market exchange possible.[2] This distinction between money and what Keynes referred to as 'convenient' media of exchange remains at the heart of a dispute which has persisted since the early twentieth century. At the time, Schumpeter accurately observed that there were "only two theories of money which deserve the name … the commodity theory and the claim theory, which from their very nature were incompatible" (Schumpeter 1917, quoted in Ellis 1934). The differences are well-known and even if it were necessary I don't think that I could bear to present them yet again in a detailed way! However, a few words are necessary.

II

The commodity-exchange theory has formed the basis for all orthodox/mainstream treatments of money. Here, money's existence as a medium of exchange derives from its utility in overcoming 'inconveniences' such as Jevons's absence of a 'double coincidence of wants' in barter or Kiyotaki and Wright's 'frictions' and 'search costs' (Kiyotaki and Wright, 1989, 1993). In Menger's classic exposition, money evolves

[1] It is important to be clear about the obvious but sometimes overlooked point that debt and credit can only be understood as a relation. That is to say, credit and debt refer to the same thing seen from either side of the relation. The debtor's debt is a credit to the creditor and vice versa. All debt is credit and all credit is debt.

[2] "To establish a proportion between two quantities, not by direct comparison, but in terms of the fact that each of them relates to a third quantity and that these relations are equal or unequal" (Simmel 1978 [1907]: 146).

from barter as the most tradable commodity - that is, a medium of exchange (Menger 1892).

As an 'untouchable' sociologist in the caste system of the Cambridge Faculty of Economics I had every reason to takes sides with the credit theorists! To use the terms of the earlier debate, I rejected the commodity-exchange theory and its derivatives on both 'historical' and 'logical' grounds (Ingham 2004a). On the one hand, there is no historical evidence to support Menger's conjectural evolutionary sequence. Of course, barter has existed, but there is nothing to show that monetary systems developed directly from it. Rather, the evidence points in another direction. On the other hand, I followed and elaborated Keynes's implicit credit theory contained in his distinction between 'money-proper' and 'convenient media of exchange' (Keynes 1930: 1). 'Money-proper' develops along with debts (contracts for deferred payments) and price lists (offers of contracts for sale and purchase). Debts and price lists can only be expressed in terms of a money of account in which purchasing and debt settling power is expressed. Money of account is the 'description' of money and money-proper is the 'thing' which answers it.

Media of exchange used 'on the spot' are, like money-proper, a means of holding purchasing power, "but if this is all, we have scarcely emerged from the stage of barter." Keynes doesn't explain the distinction much further, but I take it to refer to the difference between standardization of nominal value in the money of account that distinguishes 'money-proper' and the multiple and unstable exchange ratios of 'convenient media of exchange'.

Apart from certain circumstances which I shall refer to in a moment, simple media of exchange – salt, beans, tobacco, and so on – will have quite widely varying exchange ratios with other commodities that depend on the preferences of the transactors. This makes them unsuitable for debt contracts and price lists. At one extreme, 100 goods could possibly yield 4950 exchange ratios. Clearly, some commodities will be more exchangeable than others, but there is little evidence to support the Mengerian notion that a medium of exchange might 'spontaneously' achieve the necessary level of exchange rate stability with other commodities to function in the debt contracts and price lists that Keynes had in mind. In this regard, I found it significant that modern economists continue to cite Radford's anecdotal study of the Second World War prison camp to illustrate the 'spontaneous' emergence of media exchange (Radford 1945).[3] Two points are relevant to our discussion. On the one hand, the atypical conditions of relatively few repeated exchanges in a small closed prison camp with few commodities favoured the emergence of a relatively stable cigarette standard. On the other hand, it seems likely that this would not have been achieved without the exercise of the authority by the officers in the military hierarchies that were retained inside the camp. They controlled of the supply of cigarettes and other commodities and generally administered the monetary system.[4] Following Knapp, Keynes argued that it is the authority of the 'state or community' which proclaims the money of account and the money-proper which answers its description,

But Keynes's most significant impact on my thinking was his letter to his fiancé Lydia in which he complained about his 'Babylonian Madness' – which became the title of my second foray into the sociological theory of money (Ingham 2000). He

[3] Although Bignon's work should rectify this situation.
[4] Drug currencies in today's prisons are controlled by the coercive power of the drug barons.

complained that he was "absorbed to the point of frenzy" by the metrology of the Ancient Near Eastern civilizations – in particular measurements of value. Babylonians had no circulating media of exchange, but they calculated debts and prices in terms of a money of account. Debts were settled by netting or a final means of payment with commodities that had fixed – that is, standardized –exchange ratios, as in any system of measurement. Extensive credit-debt relations could be settled with either barley or silver because of their authoritatively established relationship. A *shekel* weight of silver (240 barley grains [about 8 grams on the modern scale]) = a *gur* (about 1.2 hectolitres of barley which was the amount reckoned to sustain a labourer's family for a month (Goldsmith 1987; van de Mieroop 2005; see also Renger 2009). In other words, Keynes understood that they had a monetary system without circulating currency.

I was similarly struck by the great Cambridge numismatist Philip Grierson's succinct distinctions. He insisted "on the test if money being a measure of value. Unless the commodities used for exchange bear some fixed relation to a standard we are still dealing with barter …..The parties in barter-exchange are comparing their individual and immediate needs, not values in the abstract (Grierson 1977: 16; 19). Although he does not appear to have been aware of their work, Grierson was in agreement with those nineteenth century German historians who had traced the origins of measures of value to the scales used to determine the payment of fixed penalties transgressions of social norms and compensation for injuries – that is, *wergeld*.

"The conditions under which these laws were put together would appear to satisfy much better than the market mechanism, the prerequisites for the establishment of a

monetary system. The tariffs for damages were established in public assemblies, and …Since what is laid down consists of evaluations of injuries, not evaluation of commodities, the conceptual difficulty for appraising unrelated objects is avoided" (Grierson 1977: 20-21).

In short, I took sides with the monetary nominalists. Money is a socially constructed standardized measure of abstract value which certain things are declared to bear or transmit. In Simmel's words: "To establish a proportion between two quantities, not by direct comparison, but in terms of the fact that each of them relates to a third quantity and that these relations are unequal or equal is one of societies great accomplishments (Simmel 1978 [1907]: 122). A critic has argued that my use of the Babylonian silver-barley measure of value shows that such measures originated in 'real' commodities (Lapavitsas 2005). I replied that the measure of value was neither quantities of barley or silver, but the *abstractly established constant equivalence* between a specified weight of silver and an abstract field of barley – that is, one which would always yield a specified quantity of barley (Ingham 2006).

This brings us to a further (tentative) consideration. Is the distinction between money and tradable commodities absolute or relative? Is money merely the most tradable commodity or is it the defining characteristic of money that it is the *only* thing that is tradable for *all* commodities? It might be useful, for example, to follow Clower's distinction between a barter economy "in which all commodities are money commodities" and a "pure money economy in which one and only one commodity can be traded directly for any other commodity" (Clower 1967: 5). In his last posthumously published work, Sir John Hicks accused Keynes of circular reasoning

for defining money as an asset with perfect liquidity because liquidity can only be defined in terms of exchangeability for money (Hicks 1989: 42). However, this apparent conundrum points to the essential characteristic of money as abstract value defined in terms of itself (money proper answering the description given by money of account). Money is “one of those normative ideas that obey the norms that they themselves represent” (Simmel 1978 [1907]: 122; see also André Orléan’s description of money as *autoréféretielle* (Orléan 1998)). The value of the ideal Babylonian field of barley and the weight of silver as a means of payment could only be defined in the absolute terms of the fixed relation between them.

I think that I can now see more clearly why Menger was so adamant that there was no difference between media of exchange and means of payment (or final settlement) – that is, to say there were only media of exchange. To have conceded that there were differences would have had serious consequences for the newly developed field of economic theory. Of course, the same considerations apply today in the continuing efforts to explain money as a useful medium of exchange rather than as socially and politically constructed perfectly liquid token credits for extinguishing debts. We could say that all means of payment/settlement are media of exchange, but that not all media of exchange are means of payment/settlement. Whether we refer to them both as money is largely, but not entirely a semantic question – as we shall see.

In my own polemical eagerness to demonstrate the weakness of economic theory I didn’t quite see the force of the distinction. The possibility arises that the antinomy of the incompatible theories has persisted because there are indeed two distinct historical phenomena: media of varying degrees of exchangeability and absolute means of final

payment/settlement. I would wish to make an historical and logical distinction between the two. The unstamped lumps of electrum and iron tools of the pre-coinage era that circulated as media of exchange in the Middle East after the collapse of the ancient empires were one line of evolution. It is at least a plausible conjecture that a Darwinian process of 'descent with modification' came when the Lydian and early Greek states applied idea of the units of account used for debt contracts, derived from the earlier period. They created the portable credit known as coinage. What I continue to argue, for the reasons outlined above, is that media of exchange cannot evolve spontaneously into means of final payment/settlement defined in terms of their own measure of value.

III

I will examine Heiner Ganssmann's recently expressed scepticism about the credit theory of money by elaborating on the general propositions that I listed at the outset (Ganssmann 2009). His first reason for believing that money and credit are distinct phenomena is that "a credit system is supported by social structures and institutions that are more complex than those supporting a monetary system" (Ganssmann 2009: 1). I do not find this persuasive. To my mind both monetary and credit *systems* are supported by complex social structures and institutions. Unless, of course, one accepts either that the emergence of money requires nothing more than traders and their commodities, or that credit is merely a matter of bilateral borrowing and lending, as Ganssmann seems to do. Moreover, this objection merely asserts that which is yet to be demonstrated – that is, the essential differences between the two.

A second point is specifically directed at my argument that 'spot' exchanges involving currency are also credit/debt relations (Ingham 2006: 261). Spot

transactions unlike credit relations, Ganssmann avers, “do not require knowledge of the other person, nor more than a minimum of trust” (Ganssmann: 2). I will comment on this tendency to identify credit exclusively with *interpersonal* reciprocity and trust shortly; but first we might briefly look at what is meant by a ‘spot’ transaction.

Following Sir John Hicks (Hicks 1989: 41-42) I would argue that there are three typical monetary transactions: payment in advance of delivery; payment ‘on the spot’; and deferred payment. Each is a contract – formal or informal – that specifies when payment takes place.[5] All three cases are different from ‘spot’ *barter* exchange. As John Smithin has pointed out (Smithin 2009), in monetary exchange “the thing offered in payment, is in a different *category* from the particular goods and services being sold. Otherwise, when trading an apple for an orange, why not call either of *them* the medium of exchange?”

Ganssmann’s distinction between credit and money is based on the identification of credit exclusively in terms of private loan contracts and deferred payment between particular individuals, involving personal trust. The credit theory of money “overlooks the qualitative differences between monetary and reciprocal relations. … Money in the sense of cash, whether coins or fiat paper, is not necessarily and in general tied into relations of borrowing and lending, quite the contrary” (Ganssmann 2009: 18).

The issue is easily resolved by observing the distinction between personal and impersonal trust. I have argued elsewhere that whilst all money is credit, not all credit

[5] “To treat the money of account as the unit for the calculation of prices is to do it less than justice. It is primarily the unit for the calculation of debts, and its use in the calculation of prices merely follows from the fact that the quotation of prices is the proposal for the creation of a debt … Money is the means established by law (or custom) for the payments of debts” (Hawtrey 1930: 212)

is money (Ingham 2004b.)[6] I have merely followed Simmel's clear and essentially sociological distinction between bilateral and multilateral, or 'private' and 'public', relationships. In a monetary system:

"the pivotal point in the interaction between the two parties recedes from the direct line of contact between them, and moves to the relationship which each of them … has with the economic community that accepts money. This is the core of the truth that money is only a claim on society. Money appears so the speak as a bill of exchange from which the drawee is lacking … It has been argued against this … that credit creates a liability, whereas metallic money payment liquidates any liability; but this argument overlooks the fact [that]… [t]he liquidation of every private obligation by money means that the community now assumes this obligation to the creditor Simmel 1978 [1907]: 177).[7]

In monetary systems this obligation is ultimately met by the issuer's promise to accept that which has been issued in settlement of any debt owed and the implicit obligation in such a system that offers of goods are priced in the money of account. Thus there are two crucially linked senses in which money is a credit-debt *relation*: for the issuer and for the holder of money. "The common relationship that the owner of money and the seller have to a social group – the claim of the former to service and the trust of the latter that this claim will be honoured – provides the sociological constellation in which money transactions are accomplished" (Simmel 1978 [1907]: 178). Monetary relations involve two simultaneous relations: between the contracting agents and between these and the issuer. This triangular relation involves impersonal trust which

[6] Just as all money are media of exchange, but not all media of exchange are money.
[7] See also: "Metallic money is also a promise to pay and … it differs from the cheque only with respect to the size of the group which vouches for its being accepted (Simmel 1978 [1907]: 178).

enables transactions between strangers. In modern monetary systems there are several interconnected 'triangles' which link a hierarchy of intermediaries – credit card issuers, banks, central banks, states.

Ganssmann takes a particular objection to my statement that possessor of money is owed goods (Ingham 2004a: 12)"Who *owes* goods to a possessor of money? Nobody. …That one has to accept a given kind of money as a means of payment if it is legal tender does not force anybody to *sell* goods to a holder of money" (Ganssmann 2009: 18). Again, my intention was to make a sharp qualitative distinction between money and mere media of exchange in order to break from the mode of thinking in which monetary exchange is merely a special case of barter exchange. See for example Samuelson: [E]ven in the most advanced industrial economies, if we strip exchange down to its barest essentials and peel off the obscuring layer of money, we find that trade between individuals or nations largely boils down to barter" (Samuelson 1973: 55).

Money in the sense of a fixed quantum of abstract value denominated in a unit of account (that is to say, measured by itself) cannot exist as such without the existence of reciprocal *actual* and *potential* debts, denominated in the *same* money of account, waiting to be discharged. (As I have indicated, this includes 'spot' transactions that involve offers of sale which incur a debt/credit relation of however short duration.) I agree entirely with Aglietta's assertion, quoted by Ganssmann, that a monetary system entails "une dette réciproque entre chaque individu et la société" (Aglietta 1997: 416). Again, it is a question of the different levels or layers of social reality. It is true to say that no *particular* individual possessor of money is owed goods by any

particular individual. But in general if possessors of goods cease to offer them for sale at a money price then the monetary *system* has in effect ceased to exist, as of course frequently occurs when there is a loss of impersonal trust in the issuer of money.

Ganssmann agrees that the proposition that all money is credit may "hold in a more restricted way for contemporary forms of money" (Ganssmann 2009: 18). One of the most important and distinctive elements in capitalist systems is the institutional mechanism by which private debts are transformed into public money – that is to say, private debts are routinely 'monetized'. This is accomplished through a complex system of credit institutions and relations that have developed between states, public banks, banking systems since the sixteenth century in Europe (Ingham, 2004a).

In the early twentieth century, Schumpeter, Keynes, Hawtrey and others developed an understanding of how the private credit-debt contract between bank and borrower created deposits of money. "There is no limit to the amount of bank money which the banks can safely create provided that they move forward in step" (Keynes, 1930: 26). Similarly, Schumpeter succinctly expressed the capitalist banking system's capacity to manufacture money. "The practically unlimited demand for credit is matched by an unlimited supply of credit. …The banks can always grant further loans, since the amounts going out are then matched by larger amounts coming in. The demand for credit makes possible not only itself, but also a corresponding supply; and every supply makes a corresponding demand…." (Schumpeter 1917: 207 quoted in Arena and Festré 1996). Furthermore,
"[b]ank notes and checking deposits eminently do what money does; hence they are money". He continues with a brief conjecture that not only was capitalist bank credit

money, but also that the converse might be universally true "money is in turn but a credit instrument, a claim to the only final means of payment, the consumer's good (Schumpeter 1954: 321).

IV

Our host, Jean Cartelier, has noted that "two opposite temptations seem to impair the theory of money: to search for a general theory which applies to all social systems, "exotic as well as modern"; and to exclude the formers' 'primitive' media from the definition of money. On the one hand, any attempt to construct a general theory leads us to forget that "each particular money is embedded in a social context out of which it is almost impossible to interpret" (Cartelier 2007: 217). On the other hand, the exclusion of 'primitive' forms from a general definition of money risks identifying particular moderns forms of money with money in general.[8] Both positions are expressions of *money hypostasis* – that is, "a conception of money as an entity endowed once and for all with some *intrinsic* properties or *permanent* features". For example, money in and of itself has the power to erode personal and traditional bonds, bringing about market relationships. However, Cartelier insists, money cannot be understood outside the set of rules specific to the society in which it is to be found. Consequently, unless there are common features to such rules in all societies, then, there cannot be general theory of money. The argument is developed with expositions of Marx's analysis of equivalence and exploitation; Kopytoff on money and commoditization; and Breton's analysis of the *Wodani*.

[8] These positions are not merely opposite but contradictory.

However, as Cartelier fully understands, the rejection of money hypostasis "leaves unresolved a recurrent question: what enables the use of the same designation *money* in all forms of society, Wodani, Tive and others?" (231). In what appears to be a partial retreat from a previous position, Cartelier observes that "[b]asing a general theory of money on a universal relation of debt, as some authors (the present author included) have done in *La monnaie souveraine*, makes sense only for people living in a society where an abstract knowledge of social relations exists as part of normal and usual social practices. A theory of money would look very strange and would probably appear totally irrelevant to the Tiv and the *Wodani*" (232).

This raises fundamental methodological problems that have persisted in some form or other in the social sciences since at least the late nineteenth century – the relationships between hermeneutic interpretation, explanation, relativism, and so on. This is not the place to delve too deeply into these issues. To be sure, Cartelier alerts us to the possibility of serious errors in applying culturally specific concepts outside their original context; but these would be far greater if we were to take such warnings to their logical conclusion.

Having become an adherent of the credit theory of money, I am naturally reluctant to abandon it. I believe that it is in all respects superior to the alternatives, and until I am persuaded otherwise I shall stick with it! Societies in which socially sanctioned obligations are measured by common standards of value and discharged with tokens which bear and transmit these values have money. Of course, this does not take us very far. Clearly, the nature of obligations changes as do the rules governing socially determined means by which they are valued and discharged; and as Cartelier argues

these must be carefully delineated; but we cannot begin to do this without at least a provisional general theory of money.

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