Capitalist credit money and development ethics:
An investigation of impersonal-interdependency under the institution of money

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Impersonal-interdependency comes as a product of the structuring of social reality which enables human beings to be coordinated by the institution of money. From his long study of the nature of money, Geoffrey Ingham concludes that Marx and Durkheim failed to propose an alternative to impersonal-interdependency in the face of capitalism: 'Modern society required a moral basis that was appropriate for its complex "organic" structure in which individuals would be aware that their independence and individuality is based on their mutual interdependence' (Ingham 2013:144). This paper focus briefly on the nature of money, as a central example of impersonal-interdependency, to open some ethical and institutional questions. As we shall see, money connects ethics with institutions in an invisible way that has been usually neglected.

Searle's account of the construction of social reality and his money related-examples help to unveil some layers. According to him, 'there are things that exist only because we believe them to exist' (1995: 1). 'If everybody stops believing it is money, it ceases to function as money, and eventually ceases to be money' (p.32). In Searle's terms, money is an institutional fact. To be an institutional fact, the first step is to have intentionality at the individual level, 'the capacity of the organism to represent objects and states of affairs in the world to itself' (p.7). As a consequence, there are, in social facts, features that only 'exist relative to the intentionality of observer, user, etc.', named observer-relative features (p.9). These features are ontologically subjective, but have the potential to become epistemologically objective at the collective level; then, they form social reality when users of objects represent objects collectively by the same representation. So *collective intentionality* is the key foundation of social reality. By collective intentionality we refer to where a group collectively 'counts X as Y in context C' (p.28); for instance, a piece of paper is regarded as money. The process of assignment or imposition of a function to objects is the other critical element. The function is not intrinsic to the object's nature, but assigned because of the agent's interests or needs. An agentive function (in Searle's term) can be distinguished from a non-agentive function by intentionality. Having intentionality means that imposition of a function is agentive, like imposing the function of medium of exchange on a piece of paper.

The other factor in an institutional fact is the constitutive rule. These rules are not the parts of an activity, but the very existence of an activity is defined by these rules, as with the rules of chess or football or of a language. Football is nothing but the collection of constitutive rules that gives the meaning of football.

By integration of the three above elements—collective intentionality, assignment of function, and constitutive rules—institutional facts come to existence. In this integration, the key step is 'the imposition of a collectively recognized *status* to which function is attached' (Searle 1995: 41, emphasis original).

> The line of stones performs the same function as a physical barrier but it does not do so in virtue of its physical construction, but because it has been collectively assigned a new status, the status of a boundary marker. … In the case of the boundary, we imagined a causally functioning physical object, a wall, evolving into a symbolic object, a boundary marker. The boundary is intended to function in the same way that the wall did, but the means by which it performs this function is the collective recognition of the stones as the function is attached (Searle 1995: 41).

Searle's account of social reality help us to see some of what he named the 'huge invisible ontology' of social facts (1995: 3). By his introductory examples and system of conception, he provides a framework to improve the understanding of the invisible aspect of social reality. But about aspects of the associated processes we remain without answers. For example, why has the capitalist-credit money emerged? Is this kind of institution ethical? Was another way of structuring and forming social reality possible? In Searle's conceptual system of social reality, collective intentionality is taken for granted. In this sense, collective intentionality is a biologically primitive phenomenon which 'cannot be eliminated or reduced to something else' (p.37). A question like 'how has this kind of institutional fact been made?' cannot be connected to the questionable intention or decision of any single person. Following from Searle's commitment to Darwinian evolutionary theory, the evolution of institutions is a matter of natural selection and 'occurs by way of blind, brute, natural forces' (p.16). So these forces may be understandable[1], but are not manageable by human beings' decision making. In other word, in Searle's account we cannot find a room for people's intentions which affect and mediate collective intentionality of the others. According to him, it is feasible to form an intentionality or collective intentionality without awareness and thinking and so without any specific intention. For example, regarding money as medium of exchange, store of value, and money of account we need not think and reflect about these roles (p.22). Nonetheless, these functions are assigned intentionally, as an agentive function, when we use a piece of paper as money, even though we don't know the conditions by which money is produced, works, and has effects.

[1] 'An unconscious intentional state has to be in principle accessible to consciousness' (Searle 1995: 7).

Beyond this level of comparison between collective intentionality and personal intention, the paper's question refers to the sort of intentions and decisions that could affect collective intentionality and also can be recognized by the upper level of consciousness. Consider for instance Elizabeth I's prohibition of foreign coins, the establishment of the Bank of England in 1694, the introduction of the gold standard, or the responses in Federal Reserves after financial crises. The issue here is: how could an agentive function be subjected to other agentive functions? how does a decision of a ruling class to create a specific type of money for its own benefits or other purposes, mediate our intentionality to consider other things as money? Searle figures out the coexistence of agentive function and non-agentive function by use of an example concerning money:

> So, for example, money may simply have evolved without anyone ever thinking, "We are now imposing a new function on these objects"….However, for all cases of agentive function, someone must be capable of understanding what the thing is for, or the function could never be assigned. At least some of the participants in the system of exchange must understand, consciously or unconsciously, that money is to buy things with, screwdrivers are for driving screws, and so forth. If we assign a function that is totally apart from human intentions, it would have to fall in the category of non-agentive functions. Thus suppose someone says that the intended agentive function of money is to serve as a medium of exchange and a store of value, but money also serves the hidden, secret, unintended function of maintaining the system of power relationships in society. The first claim is about the intentionality of agentive function. The second claim is about non-agentive function (Searle 1995: 22).

In this example, the function of maintaining power is taken as unintentional. Though Searle does not clearly reject that such kind of agentive function could be intentional, his framework still faces difficulty to explain how an intention—if we take a counterpart example in which the function of maintaining power is intentional--goes to form a primitive condition which is supposed to be achieved via blind, natural forces. This problem would be further revealed when he assumes the story in standard economics about evolution of money from commodity to contract money and then fiat money. He points that this assumption does not matter to what he wants to show; however, it seems it does not matter only if it takes the spontaneous steps of evolution.

> The logical relations among these three can be illustrated by the standard account of the evolution of paper currency in medieval Europe. I will assume this account is true, but it does not really matter much for our present purposes. I am using the account only to illustrate certain logical relations, which do not depend on its historical accuracy. Here is how it goes. The use of commodity money such as gold and silver, is, in effect, a form of barter, because the form that the money takes is regarded as itself valuable. Thus the substance in question performs the function of money solely because of its physical nature, which will typically already have some function imposed on it. Thus, gold coins are valuable not because they are coins but because they are made of gold, and the value attached to the coin is exactly equal to the value attached to the gold in it. We impose the function of "value" on the substance gold because we desire to possess that kind of substance. Because the function of value has already been imposed on gold, it is

> easy to impose the function of money on top of the function of value. And that is just a fancy way of saying that because people already regard gold as valuable because of its physical nature, they are willing to accept it as a medium of exchange. We thus have a system of exchange where objects are held for the purposes of barter, even though the people holding those objects may have no interest in them or use for them, as such (Searle 1995: 42).

This market-oriented example provides the sense of blind, brute and unintended natural selection to reach the level of fiat money. It will become more difficult to make a story in which the very process of creation of money is attributed to the sort of intentional decisions rather than market mechanisms; in fact, what stands for the maintaining power, in the former example, is not a non-agentive function but an agentive. That is to say, this point of view misses the casual intentional connection between the side of creation or producing of money and the side of using, considering, or regarding. The change in 'regarding' something as money—using a paper note rather than a coin-- is partly related to the quality of options that we should choose from. In many cases our quasi-agentive assignments are decided without agency whereas we react to a situation according to our condition and the available options. Collective intentionality is formed in such an interaction while effective parties have not the same power. If such a claim is true, then at least a part of social reality becomes subject of an ethical investigation. One can find a person, group, or class responsible for the situation.

In attempting to present a plausible account for money with sensible historical evidences, Geoffrey Ingham's works are illustrative. He shows that money is a social relation and today money is a capitalist social relation. Thus, we should be aware that the mere comparison between fiat money or credit money and coin is not enough, behind this evolution lies a complex social relation. In short, social relation here means the relation between sovereignty, bourgeoisies, and a ruling class, that ultimately led to the privileged right of the capitalist class to create money via a new system of banking. So, the main process of change in the nature of money involves not primarily down-to-up forces to make exchange more efficient by market laws, but up-to-down forces to keep and expand the interests of powerful groups that 'can be appropriated by particular interests and used despotically as means of domination'(Ingham 2008: 67)

In mainstream economics, money is simply introduced by its three function: medium of exchange, store of value, and units of account (money of account). In this stream, the main function of money is medium of exchange and the other functions, store of value and money of account, follow from the main functions (Ingham 2004a: 17). Money of account comes spontaneously from market exchange as the most exchangeable commodity, to remove the inconvenience of barter (ibid). Ingham takes this account as a good starting point to show how the conventional viewpoint fails, and then to uncover the social relation of money from early stages in history.

By referencing the German historical school of economy, from the second half of the 19th century, he exposes that 'the 'idea' of money is to be found in the scale of tariffs for the measurement of debts to be paid in compensation for injuries and damages laid down in institutions such *wergild*' in tribal societies (Ingham 2004b: 182). It helps to grasp conceptually the difference between barter and money exchange, which is the same in Mengerian economics (ibid). 'Behind the phenomenon of coin there is the phenomenon of money, the origins of which are not to be sought in the market but in a much earlier stage of communal development, when worth and wergild were interchangeable terms' (Grierson 1977: 33, cited in Ingham 2004b). In fact, this is a social relation of establishing positions and roles and compensating for functional impairment to make normative order (Ingham 2044b: 183).

> [T]he analogue for value is not to be found in the costs of producing a 'natural' substance such as gold, as the early nineteenth-century positivist economists assumed, but failed to demonstrate. Nor can a scale of value, which is necessary fora money of account, be deduced from the subjective preferences that form the assumptions of modern neoclassical economic analysis. Money has its origins in debt... And primordial debt is a debt to society, where we must assume money, in the sense of abstract value, originated (Ingham 2004b: 183).

Primordial debt had facilitated the vital foundation of money, a debt to society or a 'claim upon society', in the terms of Simmel (Simmel 1978[1907]: 190). This debt foundation had now been embodied in the objective-quantitative forms—coin and later paper note and electronic money-- to provide market exchange. The concept and role of debt is so central to grasp the nature of money and its real operation and capacity in society. Along with the conventional account of money which focuses on three micro functions, one cannot grasp the indispensable dependence of money to debt upon society—public debt. The complexity of the conception lies in the fact that debt does not exist to be eventually settled at the public level. Without continuous debt the society cannot keep its social relations and also the existence of money is not possible. In a different example that would be found more in early communities, permanent debt is held not for reciprocal behavior— like taking bills by parents from their children, after twentieth years, because of the expenses they paid for upbringing (Graeber 2011:92, cited in Ingham 2013: 141)—, but for enduring shared obligation to each other (Goodchild 2013: 55).

The social relation of debt in money production has turned into a new structure in capitalism. Even the role and coverage of debt has become more effective and broadened. A new dynamic social technology which converts the economic cycle to a monetary one; that is, firstly money should be produced and then commodities. In this system, the very process of money production becomes the way of social coordination. What social relation is implied by such an institutional operation of money?

Ingham has not referenced Hirschman's *The Passions and The Interests* at all, but nonetheless, his account exposes the structural similarity in regard to what Hirschman demonstrates about the process of transition which has formed capitalism, centered around the new role and understanding of the *interests*. Hirschman describes that evolution which 'arose right in the center of the power structure' when taking *interests* had been extended from the Prince to the other groups (Hirschman 1986: 36,129). Similarly, Ingham tells us in detail how the interest of bourgeoisies in coalescence with Prince or State led to establish the new nature of money. While at the first step money production is limited to the state, the second step brought the 'memorial alliance between state and bourgeoisie' (Ingham 2008: 70). Each sides had come from different interests and source of power into this alliance; that is, it was a struggle between 'too much and too little royal power' (Ingham 2004b: 126). The line of transformation had failed in some stages—including in Mediterranean city states—when the state had lost its power to keep the stability because of spontaneous forces (p.194-195). Eventually in England the stability had been achieved by the different role of the state in joining with capitalist class to make secure monetary space (p.122-125).

> [T]here were definite social and political limits to the market-driven expansion of credit-money. The essential monetary space for a genuinely impersonal sphere of exchange was eventually provided by states. As the largest makers and receivers of payments, and in declaring what was acceptable as payment of taxes, states were the ultimate arbiters. They created monetary spaces that encompassed and integrated social groups whose interaction was embedded in particular social ties or specific economic interests. Until private credit-money was incorporated into the fiscal system of states which commanded a secure jurisdiction and a legitimacy, it could be argued that it remained, in evolutionary terms, a dead-end (Ingham 2004b: 122).

In that period in England, the state took loans form 'the creditor powerful class'; in turn, the state gave them 'the right to take deposit and issue bank notes' (Ingham 2004b: 128). As a result, the bank had been making two loans simultaneously, for the State and for private borrowers who were owed to the bank. 'The wonder of banking' was that it had been receiving the interest rate from both sides (Galbraith 1995[1975]: 32, cited in Ingham 2004b: 128). It is striking to note that making loans for private borrower is the same as issuing paper notes. By doing this, 'the privately owned Bank of England transformed the sovereign's personal debt into a public debt and, eventually in turn, into a public currency' (p.128). The bizarre privileged right by which the bank can elastically supply money on the basis of national debt. The historical creditor-debtor private contract is now turning into public money. Even in this new social relation, the debt plays a more important role. Yet, without the debt, the 'regime would collapse if everyone paid his debts' (Bloch 1954: 77, cited in Ingham 2004b: 187). The depersonalization of debt allows to build an impersonal-interdependency by which money production establishes an insensible coordination toward a number of issues which we shall return to explain briefly. It is also significant that this new

arrangement of social reality, on the base of impersonal-interdependency, had happened at the first place in the England and then copied to other places and has continued to operate by now.

> The social relations for the 'manufacture' of capitalist credit-money were first successfully developed in England from the late seventeenth century onwards, and were *copied*, with varying degrees of success, throughout the developing Western world (Ingham 2004a: 131, emphasis added).

The puzzling crux at stake is that how the specific historical social product is now able to be *copied* ahistorically and become the main way of globalization and homogeneity. Concisely, this is an illustrative clue to unveil the role and effect of extraordinary type of social reality. Unless the subjective preferences and understandings obey promptly from this external of reality predominating itself over cultural reality, 'being copied' is not possible. Here we are required to unravel the complexities of this phenomenon by counting attributes that consistently empower this social product to be as such. Considering again the presented account of money production, one could find out the similarity between social relation of capitalist money and the elements of that Hirschman's account of capitalism including the shared understanding of the interest that can be objectively maximized, the flexible hierarchy that had been emerged[2], and the contrary of having less gain compared to having more which systematically led to more money supply—that eventually results in more production.

The suggesting attributes include the following.

- *Money and development.* Let's begin by asking, what does provide to participate together unconsciously a Malaysian buyer with an American capitalist, and with a German worker and so on? The short answer is: the impersonal-interdependency of the capitalist-credit money. Again it should be insisted that this is not simply the consequence of free market; however, it would be then marketized through the action and interaction of prices. It depends essentially to on the very attribute of the *process* of money production and other byproducts—like derivatives— which are subject to the privileged position in the social relation. Without this production there are nothing to be rivaled or interacted in market space; to say, this production provides the epistemic primacy of the market activity. To be convinced in this regard, one should concern money as a *process* rather than an *object*. By the very process of money production, before the market interaction begins to operate, variety of things has done to satisfy the powerful class in the social relation behind it.

[2] For example, consider 'the social production of money was the change in the balance of power that was expressed in the equally 'hybridized' concept of sovereignty of the 'King-in-Parliament' (Ingham 2004b: 128).

It should be also emphasized that all the phenomenon cannot be reduced to the interest of the powerful class. There is a social capacity elsewhere which is activated by this way of money production. To find it, it is necessary to draw our attention to the new aspect of production. Large scale of production in long term and distant division of labor together with a large aggregate demand, require the huge participants to be coordinated in epistemic dimension before physical realization. It is the fundamental reason of primacy of money production over commodity production which establishes precedent organization for further operation. As usually presented, banking does not simply funnel micro savings into large investing, or accommodate savors to transfer current surplus into the future, or give investors the future income now. This representation matches merely with primitive banks in early mediaeval period which only transferred the purchasing power, not identified with the capitalist-credit money (Ingham 2004b: 193). Accordingly, Schumpeter understood that 'the essential capitalist practice was the actual 'production' of bank credit-money out of nothing more than the promise of repayment' (Schumpeter 1961 [1911]: 70–4 cited in Ingham 2008: 39). Moreover:

> This creation of credit money in a banking system is a self-generating, relatively autonomous process insofar as the 'banks can always grant further loans, since the larger amounts going out are then matched by larger amounts coming in'(Schumpeter 1917: p. 207 cited in Ingham 186).

So, contrary to the usual imagination, it is a matter of fact that 'loans make deposits' not the reverse. (Ingham 1996: 522). In consequence, the process of money supply in this way furnishes social organization which results then in a continuous commodity production. So it can be advocated that the new impersonal-interdependency arrangement associated with underlying narrative course of action—which connects the individual act to the coordinated collective act— forms a substantial attribute for systematic changes in the form of living--*development*. The ability to systematic change in the form of livings causes outside regions to want to be the same, and the basic way that bridge them to the developed regions is to be homogenized by the monetary system.

- *Genus and species.* In scrutinizing the phenomenon of money, distinction between 'genus' and 'genotype', or 'essence' and 'form', or 'genotype' and 'phonotype'(Ingham 2007: 267), or 'type' and 'token'(Searle 1995: 32), or 'title and thing', or 'acknowledgement of debt' and 'money-proper' (Keynes 1930: 3,9) is so essential to tackle this question: how does the larger money

supply contribute to a larger coordination? In fact, it connects a qualitative social thing with a quantitative feature. The answer lies under the other epistemic feature: *working fiction*. It should be noted that this fiction would also cover other activators like entrepreneurs. Working fiction arise from inability to distinguish between type and token. In terms of Innes (1nnes 1914, p155):

> '[T]he eye has never seen, nor the hand touched a dollar'. Rather, all that we can see and touch is something that represents a dollar, which is, at one and the same time, both a measure and a unit of abstract value (Ingham 2007: 266).

Innes tries to point the realty out which lies behind our fictions, working fiction of invariant money. In so far as this fiction would be maintained by authority, legitimacy, and stability, a larger money supply coordinates larger parts of human beings (see Mirowski 1991: p 579, Ingham 2007: 271). They cannot feel how their own participations benefits the others because of their fictions that today dollar is the same as the last year dollar. As a result, by money production, people are routinely organized in an epistemic dimension. To make a ground for this, the gold system established significantly the proper conditions by which the system was authoritatively able to be copied (Ingham 2004a: 131).

- *Two sides of coordination*. Remember the insight Searle presents: 'if everybody stops believing it is money, it cease to function as money, and eventually cease to be money' (Searle 1995: 1). Based on it, capitalism credit-money innovates a social technology by which money production led to organization and then to production. On the one side, this advantage lies fundamentally in the very existence of society in itself to make such a collective intentionality by people. On the other side, it will not be activated without other side in social relation; because, the function of 'regarding' something as money does not come from blind natural selection. Nor does it by the fully collective agency of ordinary people of a society. According to historical evidence, the up-to-down social relation is able to tap into the phonotype—regarding something as money—as well as the genus of such collective intentionality. Without making ontological judgment about the nature of the dichotomy, yet it can be seen that this dichotomy, by its mere existence, allows the system to be copied.

Concluding remarks:

As it has been discussed, the impersonal-interdependency connects strongly with the primary concept of phenomenon of development--the social systematic change in the form of living in capitalist system of production—as well as the other significant issue such as agency, responsibility, distribution of benefits, and so on. Moreover, the imposition of invisible values in myriad ways can be investigated in it. So we are required to open the following ethical questions with the respect of impersonal-interdependency under capitalist credit money for further study:

- Capitalist credit-money expands the social capacity by mobilizing the favors of the public belief to the benefits of the private powerful capitalist class. How is it possible to activate this social capacity in favor of the public benefits?
- The answer of the preceding question tied closely to the social relation of debt because of the primacy of debt over the concept of money. The role of interest rate, which is not a market product but a social relation of debt, should be considered respectively. The question is that if a society needs to expand the national debt to enhance the social organization, what alternatives can be proposed and by whom and which mechanism is debt issued?
- As it has been shown, this capacity needs a strong governance. The concern is that the poor nations around the world are deprived to have such a strong governance especially from an international perspective. Even there is a wide appeal among weak governments of deprived nations to join with the international organizations which eventually firm the establishment of the capitalist arrangements up in the monetary relationship. How is it possible to replace the alternative organizations in favor of the poor people? How is it ethically matter to replace a token and a type of international currency instead of for example dollar? And what will be the consequences?
- According to the nature of capitalist-credit money which has an unending desire to expand itself, it logically mobilizes the natural resources toward the privileged monetary headquarters and induces consumerism there. To what extent did studies investigate the relationship between these two issues? Similarly, how does the monetary arrangement affect environmental problem?
- How is it possible to design urgent schemes to provide basic needs of the deprived people according to the capacity of money in social organization?

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