



NOTES DE LECTURE

La monnaie entre violence et confiance

Michel AGLIETTA ET André ORLEAN
Paris, Odile Jacob, 2002

par Robert GUTTMANN¹

Aglietta and Orléan define the purpose of their latest collaboration in its avant-propos, namely to provide a synthesis of their two earlier works on money. Their first book (Aglietta, Orléan [1982]) laid out a new vision of money as regulatory mechanism transforming inherently conflictual social relations into viable engagements, an analysis rooted in René Girard's analysis of mimetism as the principal human trait underlying this man-made social construct. In the work reviewed here the authors return to many of the ideas and concepts first developed two decades ago and adopt a similar structure – a theoretical introduction marked by contradistinction to the orthodox approaches, a historical part designed to illustrate the empirical manifestations of their theory, and much discussion of monetary institutions in between. But now our two friends push their agenda further by offering us also an analysis of money as pillar of sovereignty from which this institution derives the public trust required for its effective functioning, a theme first developed in a fascinating collection of articles cutting across a variety of disciplines (Aglietta, Orléan [1998]). As the title suggests, *La monnaie entre violence et confiance* attempts to integrate these two facets of money – its ability to channel the violence inherent in

1.  Department of Economics, Hofstra University, Hempstead, New York (USA) –
: ecorpg@hofstra.edu

social relations and its capacity to legitimize power as the basis for its general acceptance.

Of course, such a synthesis provides fertile ground for many new insights regarding money which no other theoretical approach is able to muster. Aglietta and Orléan reinforce this comparative advantage by discussing and drawing from a wide variety of theories, giving us in the process a broad review of the literature. Moreover, the integration of money's two souls – as channel of social violence and vector of sovereignty – also opens the way for contextualizing a number of recent monetary developments in original fashion, such as the introduction of euro as primarily a question of confidence, the bull market and “New Economy” notion of the late 1990s as an example of mimetism, and the collapse of Argentina's currency board as an expression of money's inherent violence. For these reasons alone Aglietta and Orléan have succeeded in completing a trilogy on money which *in toto* marks one of the most important contributions of Régulation Theory to the history of economic thought.

But this last contribution, while worthy of its two predecessors, also has some shortcomings typically found in attempts at synthesis. The two facets of money are too often presented in parallel fashion and not enough in their interactive tension, as simultaneous parts of an institutional entity. That problem is not helped, actually made worse, by a certain lack of cohesion in the sequencing of their argumentation which is particularly evident in the first part laying the theoretical foundation for the subsequent historical and institutional analysis. There, in the crucial opening chapters of the book, the argument constantly jumps from one conceptual level – the commodity world – to another – the world of money – and back. Sometimes, especially when digressing into other authors' thoughts or introducing an array of concepts all too often *en passant*, their argument goes sideways. The first hundred pages of the book present the reader with a zig-zag course that does not make for easy digestion. Perhaps the book was written too fast, not revised enough, or undermined by inadequate cooperation between the authors. Whatever the cause, it does at times look like an unfinished work, lacking a certain modicum of cohesion and clarity. Still, notwithstanding this *faiblesse*, Aglietta and Orléan have given us a very rich book full of thought-provoking insights which advance our understanding of one of humanity's greatest and most enigmatic inventions. Those insights are worth recounting, done here in chronological fashion.

WHERE DOES MONEY COME FROM?

In the first part of the book the authors try to answer two questions in inter-related fashion. The first concerns the very nature of money. What exactly is money? For Aglietta and Orléan money is neither just another good, as argued by the neoclassicals, nor best characterized in Keynesian fashion as financial

asset. Instead money is much more effectively understood as *lien social*, an institution binding individual actors into social relations of interdependence and conflict – between buyer and seller, worker and manager, creditor and debtor, or competitors fighting for market share. This unique view of money begets a second question, namely what it is specifically about humans that prompted them to invent money and use it so centrally in their organization of society. Aglietta and Orléan answer these two questions through an exhaustive review of the literature aimed at rejecting the orthodox view of money as facilitator of exchange in favor of an alternative view of money as social bond.

In the first two chapters Aglietta and Orléan take a close look at the neo-classical model whose core notion of a market economy's self-regulating propensity toward automatic balance only exists if money is assumed out of the picture. This model of money-less equilibrium conditions (e.g. barter-type exchange, physical production functions, the Walrasian auction setting market-clearing prices) is centered on a strange individual actor, the *homo oeconomicus*, who is endowed with perfect knowledge and foresight to make rational decisions how to optimize benefits within a given set of constraints. Those decisions are made alone, in isolation from other actors. Dominating economic theory and providing the theoretical foundation for the ideology of liberalism, this model adds money as just another good, albeit one endowed with unique supply and demand functions. Thus separated from the “real” economy of exchange and production, money is assumed to exist in its own “monetary sphere” of nominal price levels. Its integration with the rest of the economy is a merely functional one, unable to disturb the resource allocation rules and relative price ratios of the real economy. Such a presumption of money's neutrality, as crystallized in more modern versions of the age-old Quantity Theory (Friedman [1954]; Patinkin [1965]), eliminates all consideration of its powerfully destabilizing tendencies in order to highlight exclusively what makes money so useful – its ability to reduce transaction costs by simplifying the pricing complexities and overcoming the double coincidence of wants found in barter-type exchange.

Rejecting this utterly reductionist presentation of money's role in our economy, Aglietta and Orléan search for the building blocks of their alternative by selecting key facets from the works of various heterodox thinkers – especially the extensive writings on money by Marx, Simmel, or Keynes, and the socio-anthropological analyses of human behavior by Lévi-Strauss, Girard, and Mauss. In this context I found their treatment of Marx quite curious, if not troubling. Early on (p. 17-18) the authors compare the neo-classical “nomenclature” of *ex-ante* utility functions and Marx's notion of “abstract labor” as equivalent methods of homogenizing objects of desire or products of labor into commensurate quantities of value. That claim of equivalence is not fair. Apart from the fundamental difference between (subjective) use-value and (objective) exchange-value, the notion of abstract labor expresses average production con

ditions whose imposition Marx spent a great deal of time analyzing in connection with a process of cross-sectoral profit equalization through the forces of competition and inter-industry capital flows. The purpose of their claim of equivalence between Walras and Marx becomes clear a bit later (p. 23-27) when Aglietta and Orléan separate money from value so as to free it for a different point of departure.² While their way of anchoring money in societal practices constitutes a credible alternative, they deprive themselves of insights Marx gained by analyzing money as measure of value.

Keynes fares better than Marx in this work, especially his emphasis on the precautionary motive of money demand and on liquidity preference. Aglietta and Orléan contrast the neo-classical *homo oeconomicus* with the Girardian individual who is riveted by his acquisitive instincts, reflecting the desire of humans for wealth and material objects, yet fully cognizant of the radical uncertainty posed by an unknowable future. Being after all social animals, humans cope with these conflicting forces driving their calculations by making reference to each other, by copying what others think and do. This propensity for imitation is essential to the consensus underlying money's general acceptance as expression of wealth. That same propensity also explains the public's liquidity preference which drives economic actors to hoard cash during periods of heightened uncertainty. The anchoring of money in the Girardian hypothesis of mimetism makes it possible to argue that money transforms otherwise violent relations among competing actors into contractually regulated interactions subject to negotiation and compromise. This interjection of money as regulatory force in social relations rests on its general acceptability through which it comes to represent the sovereignty of the state, a symbol of extra-market authority enforcing the rules of the marketplace.

At the end of chapter II (p. 89-96) Aglietta and Orléan introduce the evolutionist approach to money (Menger [1892]) as located between the Walrasian view of money as just another good and their Girardian view of money as *fait social total*. They applaud the founder of the Austrian school for emphasizing the consensus of general acceptability and money's quality of liquidity, making him look closer to their view than to that of Walras. In my opinion they are too generous with Menger. As far as I can remember, and as an undergraduate student at the University of Vienna in the early 1970s I had to remember, his theory of money marked the perfect complement to Walras' money-less universe and introduced the myth of money arising spontaneously in acts of exchange to reduce transaction costs (Guttman [2003a]). The three alternative visions of money are well summarized in a table (p. 95). I would urge any

2. While making recurrent references to Marx's analysis of exchange and finding overlaps with the essentially Marxist analysis of money by Benetti and Cartelier, the authors also stress repeatedly that their notion of value has nothing to do with the Labor Theory of Value.

reader to take a look at this table *before* actually starting to read the book. It is a compass with which to navigate more easily through the often topsy-turvy sequencing of arguments in the first part of the book.

THE SYNTHESIS OF MONEY

In their discussion of Girard's hypothesis as the basis for money's general acceptance (p. 69-89) Aglietta and Orléan distinguish three forms of violence which money channels and embodies. The *violence essentielle*, termed F1, focuses on the tensions between individual actors which arise from their mutually exclusive quest for society's wealth in a search for recognition by others. Manifestations of this type of social violence engender a centrifugal "fractionnement" eroding social cohesion and triggering intense monetary instability (e.g. hyperinflation). The *violence fondatrice* (F3), rooted in the mimetism of humans, drives in the opposite direction towards the formation of unanimity in the group and the force of self-fulfilling prophecies once they have come to be shared by a sufficiently large number of actors. Money, the object of greatest unanimity, derives here its *raison d'être* as the means with which to transform F1, a situation of open conflict, into F3, a set of mediated relations of interdependence in which conflicts of interest can be settled based on common ground. The *violence réciproque* (F2) crystallizes around the competition between different money forms. Because of the self-referential nature of its general acceptability money is not bound to any particular form, thus can take many forms, including those competing with each other. Today we have, for instance, still some remnants of metal money (coins), paper money (notes, checks), and electronic money (electronic fund transfers).

Money's ability to channel violence into socially viable forms rests on its general acceptance. Money works, because people have confidence in it. At the beginning of the third chapter (p. 104-106) Aglietta and Orléan analyze this phenomenon of confidence associated with money as the result of routine and tradition (*confiance méthodique*), reinforced by the power of the state (*confiance hiérarchique*), and anchored in the legitimation of political authority which the national currency represents (*confiance éthique*). In a monetary economy social violence and public confidence enter into a dialectical relationship. Violence is reshaped by confidence while confidence may be undermined by violence in the form of financial crisis and monetary instability. This dialectic endows money with a uniquely ambivalent nature, serving at the same time as social homogenizer (*centralisation*) and private differentiator (*fractionnement*), an ambivalence also reflected in the complicated coexistence of its different functions (p. 106-115). Today it is typically up to the central bank to assure the proper balances among money's divergent functions and contradictory roles.

THE HISTORICAL ROOTS OF MONEY

The first part of the book makes repeated references to the ahistoric nature of the neoclassical orthodoxy for whom money comes about as a natural outgrowth of exchange. Aglietta and Orléan insist instead on a historical analysis of money, not least to debunk the orthodox myth of money's appearance in connection with trade. Their point is to demonstrate that the presumed causality from trade to money unfolded in actuality the other way around, from money to trade. Money, after all, was invented long before exchange activity became dominant, as a pillar of state power and symbol of sovereignty.³ Towards this objective the examination of money's history in chapter IV starts with the introduction of metal coinage during the 7th century BC in Lydia (Asia Minor), a major monetary innovation establishing coins as iconic representations of state authority and source of seigniorage gains for centuries to come (p. 127-130). This standardization of money in the form of metal coins greatly boosted trade along an arc sweeping across the Middle East – from Egypt to Asia Minor and beyond into Mesopotamia.

Another major innovation, starting in Renaissance Italy, occurred when deposit certificates began to circulate in lieu of the gold deposits they represented and so turned goldsmiths into bankers. Once such bank-issued notes had gained sufficient public trust to be accepted without *de facto* guarantee of convertibility, first among the Dutch and British publics in the late 17th century, the banks could issue more notes in excess of available gold reserves and loan them out for income. This monetary revolution, the invention of fractional-reserve banking pumping bank-issued paper money into the economy, preceded the industrial revolution by half a century and helped trigger this transformation (p. 136-138). In 1694 the British set up the first modern central bank, the Bank of England, whose job it was to manage the convertibility between precious metal reserves and bank notes (p. 144-148). That management is based on the central bank operating the nation's payments system whose hierarchical structure it heads and controls (p. 148-149). Today this payments system is being once again revolutionized by the appearance of electronic money (p. 149-151).

I wish to take issue with this depiction of money's historic origins. Why start with metal money when humans had used agrarian forms of money for perhaps ten millennia before that? We easily forget this prehistoric money, because not much is known about it in the absence of written records.⁴ Ignoring that money

3. The case for money's origins as pillar of state power has been made most forcefully by the Chartalist school (Wray [1998])

4. We do, however, have archeological evidence, wonderfully summarized in Festinger [1983], which demonstrates the spread of agrarian products as widely accepted media of exchange in the Middle East about 13,000 years ago.

form also serves the authors' intent to show that money preceded trade, since agrarian money is more likely to have emerged as an outgrowth of trade when market participants formed a consensus about certain products characterized by high use value, relatively scarce supplies, and stable valuation for selection to the status of medium of exchange. But one can discuss the presence of agrarian money in prehistoric societies without necessarily having to give credence to the neoclassical claim about trade begetting money. We do have scant, but consistent evidence showing that agrarian money forms took first root in social practices other than exchange, notably in religious practices involving rituals of sacrifice where priests imposed a general equivalent for contributions from the community and so turned temples into early centers of power and commerce. Early agrarian settlements also must have developed a system of pecuniary restitution for crimes committed in lieu of "eye for an eye" revenge which threatened to tear these communities apart in internecine clan warfare. Another significant early manifestation of money as social bond was the practice of dowry payments by the bride's family to the groom and his clan.

I also have some questions about how Aglietta and Orléan analyzed modern bank money. While reference is made to that money's linkage to debt, their key focus is on the payments system in general and inter-bank netting or check-clearing provisions supporting fractional-reserve banking in particular. Thus they never get to lay out the complex modalities of endogenous credit-money which banks create *ex nihilo* in acts of credit extension to monetize a portion of the nation's debt through automatic liquidity injections.⁵ This choice of too narrow a focus becomes more critical later on, in chapter V, when the authors present two alternative monetary systems to demonstrate the extreme poles of money's tension between "*fractionnement*" and "*centralisation*." Before getting into that discussion, however, let me make a small point about the authors' conception of electronic money. Aglietta and Orléan confine their initial discussion of this new money form (p. 149-151) to electronic fund transfer technology computerizing our payments system, but later on reexamine electronic money more broadly to include automated clearing-house arrangements, new fund-transfer networks, and online payments systems as well as the risks those innovations pose (p. 284-292). My own conception of electronic money goes even further than that, as the emerging cornerstone of an entirely new monetary regime whose birth we are witnessing right now (Guttman [2003b]).

THE DUAL NATURE OF MONEY

Money transforms otherwise violent battles over the distribution of social wealth by forcing each actor into exchange relations through which they come

5. For more on the complex modalities of credit-money see Guttman [1994].

to depend on the actions of others for their own income. Violence gets crystallized in the monetary constraint, that is the need to sell one's resources or products before one is able to buy, which subjects everybody's economic activities to the need for social validation by others. This ex-post validation is uncertain, and such uncertainty fosters mimetism. In chapter V, Aglietta and Orléan present a model of monetary flows between businesses, including debts covering cash-flow gaps, to demonstrate their interdependence rooted in the monetary constraint (p. 169-177). The model stresses the possibility of systemic disequilibria in the absence of ex-ante coordination among actors. It forms the basis for a depiction of two idealized monetary regimes with opposite characteristics which correspond to each pole of money's dual nature. In the *système fractionné* (p. 178-181) we have a multitude of competing money forms and financial intermediaries. Such a fragmented regime tends to favor debtors. Relying more heavily on markets for credit transfers, this regime is characterized by *financial liquidity* and a crisis dynamic of self-feeding bubbles whose inevitable burst triggers cumulative asset-price deflation. The *système homogène*, by contrast, contains only one money and has the central bank as sole financial intermediary (p. 181-191). This centralized regime, resting on an integrated banking system controlled by an omnipotent central bank, is more stable than its fragmented counterpart. Inclined to favor creditors, it engenders *banking liquidity* and shows a propensity for panic runs on banks as its principal crisis dynamic.

This dichotomy of monetary regimes depicts the logical extension of each of money's contradictory tendencies, as private object of desire on the one hand and social bond and homogenizer on the other. In the rest of the book, over the last hundred pages, Aglietta and Orléan seek to construct a conceptual framework for a synthesis which takes account of the dialectical unity of these contradictory tendencies. While their analysis in the book's concluding part of central bank strategies and tactics, financial crises, risks in credit relations, and monetary innovations is amazingly rich, it relies too much on this bifurcated model of qualitatively opposite monetary regimes and so ends up describing the ongoing profound transformation of money and finance primarily in terms of shifts from one regime to another. A deeper look at the modalities of modern credit-money, focusing in particular on the linkage of money creation to bank lending and security purchases, would lead us to redefine the social-private tension within money perhaps a bit differently. The social dimension could be extended towards an analysis of money as *public good* whose proper functioning with regard to its creation, smooth circulation, and stable valuation yields such large social benefits in terms of greater efficiency, higher incomes, and faster growth that you would not want to exclude anyone from fully enjoying those. The private dimension should focus on money as *private commodity* created by private agents (banks) for profit and thus subject to destabilizing conditions of instability (pro-cyclical supply), inequality (discrimination in access), and innova

tion (competing money forms) which threaten to undermine the public-good qualities of money. The central bank has to manage this contradiction *in toto* and uses a combination of monetary policy tools, financial regulations, lender-of-last-resort mechanisms, and international monetary arrangements for that purpose.

THE TRANSFORMATION OF MONEY AND CREDIT

The concluding part of the book, comprising the last three chapters, takes us on a most interesting voyage through the remarkably complex and profound changes in the area of money and credit. Aglietta and Orléan seek here to identify trends which empirically validate their theoretical concepts and hypotheses pertaining to money's *modus operandi*. Chapter VI presents a detailed analysis of U.S. postwar monetary policy, offering a comprehensive picture of how a capable central bank manages a monetary regime that is subject to structural changes and mounting financial instability. I would have preferred to see an analysis of the accelerating inflation during the 1970s as a crisis phenomenon signaling the end of the Fordist accumulation regime and place the recurrent credit crunches between 1966 and 1982 in that broader context. I also believe that the authors did not pay sufficient attention in this chapter to the dual role of the dollar as national currency and international medium of exchange which forces the Federal Reserve at times, such as in 1961, 1971, 1979, 1985, and 1994, to face conflicting pressures between its domestic objectives and pressure on the dollar from the currency markets. This international dimension of US monetary policy is especially important to consider, since the frequent policy switches of the Fed over the last quarter of century have often had a profoundly destabilizing impact on the growth pattern of the world economy. The role of the dollar as vehicle currency, giving rise to chronic US balance of payments deficits whereby dollars flow from their country of issue into the hands of foreigners, has set up a hierarchical structure of international capital flows crucial to the growing synchronization of business cycles and the dynamic of global financial crises over the last twenty years.

Still, I agree with the assessment (p. 298-307) that the Fed, in comparison to the new European Central Bank, comes off well. The ECB is hindered by a narrow constitutional mandate for price stability while the Fed considers a broader range of policy objectives which give both its strategies and tactics much greater room. The ECB also focuses on the money supply while the Fed aims to influence interest rates in countercyclical fashion. Nor is Europe's new central bank helped by fixed policy rules (i.e. 2 percent inflation target) which leave it with much less flexibility of action. The still-national fiscal policies, subjected to an EU-wide fixed policy rule limiting budget deficits to 3 percent of GDP, provide an institutional barrier to the ECB's effectiveness, restricting the

scope of its open-market operations. Moreover, the ECB has yet to earn its reputation as regulator of banks and crisis manager, two central bank responsibilities in which the Fed has excelled. More generally, I found the discussion of the euro as one of most important monetary innovations of the last half of century in chapter VIII rather captivating, especially its effects on creating a single European financial space, reducing the sovereignty of nation-states, and symbol of European integration among EU citizens.

The ambitious chapter VII, in my view the best of the entire book, takes a closer look at the dynamics of financial crisis in which the tension between “*fractionnement*” and “*centralisation*” plays itself out most dramatically. Apart from distinguishing between banking crises and financial-market crises, Aglietta and Orléan also give us a concise analysis of financial globalization in the aftermath of its progressive deregulation (p. 243-247) and the dramatic consequences of this development for the unfolding of recent financial crises, especially their contagion across national boundaries as manifest in the global debt crisis of developing countries in the 1980s, the EMS crisis of 1992/1993, and the breakdown of currency pegs in emerging-market economies which started in Thailand in 1997 and ended in Argentina in 2001. The authors deepen our understanding of such financial instability by systematically elucidating different risks involved in credit transactions to identify new sources of systemic risk threatening the entire global economy (p. 247-254). And they discuss the expansion of lender-of-last-resort interventions to cope with new types of financial crises in recent decades (p. 279-282), stressing correctly such crisis management as today’s central pillar of sovereignty.

The book ends, in chapter VIII, discussing three crucial examples of monetary innovation two of which we have already mentioned – the advent of electronic money and the introduction of the euro. The last innovation discussed deals with limited efforts to create an international architecture of new policy institutions and globally applicable regulations – the Basel Concordat of 1975 for international lender-of-last-resort cooperation among central banks, the Louvre Agreement for target zones stabilizing key exchange rates, the Fed’s and IMF’s crisis interventions, the 1988 Basel Agreement for risk-adjusted minimum bank capital requirements uniformly applied across the board. Globalized finance requires an internationally organized monetary regime to safeguard money as a global public good.

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GUTTMANN Robert : Professeur d'économie à l'Université Hofstra, New York, et régulièrement Professeur Invité à l'université de Paris Nord, expert sur les questions de monnaie et finance, il a publié de nombreux articles et ouvrages dont le plus récent, *Cybercash: the coming era of electronic money*, vient de paraître chez Palgrave Macmillan en 2003 et a fait l'objet d'une note de présentation dans la *Lettre de la régulation*, (n° 44, avril 2003).