

# Issues in Regulation Theory

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### EDITORIAL

This is the first English edition of the "Issues in Regulation Theory" appearing in *La Lettre de la Régulation*. The French and Spanish versions, as well as information on previous issues (most of which can be downloaded), are available on the "Association Recherche & Régulation" website.\*

The publication of this English version is also an opportunity for the editors to explain the nature and objective of such "Issues in Regulation Theory". They are intended as overviews (roughly 2,800 words) dealing with aspects of research on institutional regulation, whether in the form of critical essays on this theoretical approach and related studies or as reflections on empirical issues where standard theory has been called into question by the dynamics capitalism and institutionalist approaches offer an alternative vision. These theoretical notes may be submitted by the authors or requested by the editors.

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The editors (November 2002)

\* <http://www.upmf-grenoble.fr/irepd/regulation>

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### THEORETICAL NOTE

#### Reflections on the Nature of Money

Michel Aglietta (CEPII-Paris X)

[aglietta@cepii.fr](mailto:aglietta@cepii.fr)

and André Orléan (CEPREMAP-CNRS)

[andre.olean@cepremap.cnrs.fr](mailto:andre.olean@cepremap.cnrs.fr)

Presentation of their latest book *La monnaie entre violence et confiance* (Paris, Odile Jacob, 2002)

"Neither commodity nor State nor contract, but trust". Such is the most concise résumé of the monetary conception put forth in *La monnaie entre violence et confiance* [Money between violence and trust]. This work maintains that money is ultimately based on the social faith that makes it unanimously accepted by a community because each of its members anticipate that all the others desire it—in other words, what has been called its 'liquidity'. Such an approach is opposed (in various forms and to different degrees) to the metallist, chartalist and contractualist conceptions which situate the origins of money, respectively, in its nature as commodity, in the State or in the contract. Although our analysis remains a minority view among economists, it is not without precedents; indeed, it belongs to a long albeit neglected tradition honoured by the names of Marcel Mauss, François Simiand and

Georg Simmel.<sup>1</sup> In its refusal to limit the monetary phenomenon to the field of economics alone, this tradition has been based on contributions from the different social sciences, as attested by the brilliant dialogue carried on throughout the interwar period by Mauss the anthropologist and Simiand the economist.<sup>2</sup> We propose the term 'institutionalist' to designate this analytical current because it places money in the role of a primordial institution lying at the origins of the market order.

<sup>1</sup> We should like to take this opportunity to express our most humble apologies for the disappearance of final *d* in Simiand throughout *La monnaie entre violence et confiance*. Owing to circumstances beyond our control, this error was introduced after the proofs were read.

<sup>2</sup> See François Simiand, "La monnaie réalité sociale", *Les Annales Sociologiques* série D, fascicule 1 (1934), 1-86.

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Because this ‘institutionalist’ monetary theory has remained so marginal among economists, it has not undergone the significant analytical developments which have benefited the contractualist approaches through the concept of equilibrium. As a result, its micro-economic foundations remain weak. In Simiand’s work, for example, trust is assumed to be present, without any explanation of the social process which establishes it. It is clear, however, that a convincing analysis of monetary relations requires a conceptual framework which goes beyond the simple evocation of trust in this vague, general form. What is needed is a reflection on the specific nature of monetary trust in order to provide precise answers to the following two questions: Where does such trust come from? How does it come to be called into question? *La monnaie entre violence et confiance* is intended to offer such a conceptual framework on the basis of what we have termed the ‘mimetic hypothesis’. In the first section of this article, we shall present the hypothesis itself. In the second section, we shall show how the theory which this hypothesis permits us to establish radically modifies our conception of monetary policy. It is clear, however, that we can only present a concise overview of these issues within the framework of this very brief article.

### 1. The mimetic hypothesis

The first chapter of our book is devoted to showing that it is not possible to elaborate a satisfactory theory of money on the basis of the theory of value—an essential argument which we owe to the research of Carlo Benetti and Jean Cartelier.<sup>3</sup> The value hypothesis, regardless of the specific form invoked, explains why commodities are commensurable and in what proportions they should be exchanged. But once the logic of exchange finds its complete theoretical description in the law of value, of what use is money? At best, it serves to facilitate transactions once exchange ratios have been determined by value relations. It is not important whether the ‘specific substance’ of the latter is abstract social labour or utility: the result is the same for what concerns us, namely the ‘conceptual’ uselessness of money, whose role is limited to that of an instrument making the circulation of commodities easier.<sup>4</sup> By contrast, the approach we are proposing is opposed to the idea of a ‘natural’ commensurability, established prior to monetary exchange. In our view, the price of commodities results from the unanimous desire for money, and not from any supposed value. This is what we shall call the ‘monetary hypothesis’: what lies behind price is not value but money.

To measure the distance separating approaches based on value from those based on the monetary hypothesis, it should be recognised that in the case of the former, we are confronted with a pre-established market society. Thus, value describes the way a certain state of the division of labour links society mem-

bers in specific quantitative relationships without their knowledge. The question of how the market order imposes itself on economic subjects who are highly autonomous with regard to both their objectives and the conduct of their affairs emerges only secondarily. Greater emphasis is placed on determining the equilibrium, deemed a question of existence, than on the way the economy converges towards this equilibrium, deemed a question of stability. In other words, the issue of what the market subjects have in common is neglected because it is presumed to be resolved through the concept of value. The monetary hypothesis takes a totally different approach. In our view, the objective dependencies engendered by the social division of labour do not in themselves suffice to produce a stable social bond. Such a bond presupposes something more, namely a socially recognised appraisal which gives meaning and ‘value’ to the separated activities of the economic players. It is through such a mediation process that objective interactions can give rise to an ordered whole. And this is the fundamental role played by money. Thus, we would argue that money is in no way an instrument but rather, the highest expression of the group’s ‘being together’, the socially legitimate form of market relations which allows each person to find his or her way in the economic order. The unanimous acceptance of money is what transforms the market group into a stable society. From this point of view, money is primordial—it is what society members must have in common in order to establish a solid bond capable of determining each person’s place, in terms of rights and duties alike. Money, in our approach, is thus the expression of the social totality. But what remains to be explained is how this common reference point emerges.

To this end, chapter 2 takes as its point of departure *separation*—namely the particular relationship, introduced by the market economy, which leads to the isolation of individuals by making them autonomous in relation to one another. This phenomenon is the basic enigma of the market society. How can these separated individuals share something? How can a stable social order be set up on the basis of a relationship so exclusively orientated towards individual autonomy? In order to answer these questions, it is necessary to recognise the extreme pressure that separation brings to bear on individual players. On the one hand, it produces a radical uncertainty. Indeed, in an economy based on separation, each person’s dependence on the others and on the group remains totally opaque because collective action emerges as the unintentional result of everyone’s free choices. On the other hand, the effects of this uncertainty are all the more devastating because the market society lacks the mechanisms of ‘risk insurance’ found in traditional societies—the bonds of solidarity existing between family, neighbours or friends which allow individuals to obtain aid in times of hardship. The result is a very profound need for protection in order to ease the pressure on each person’s existence. In our view, this need is the fundamental expression of the market relationship insofar as a mechanism serving to isolate the individual from the group. As such, it must be seen as a societal need, a need for recognition by others. Ful-

<sup>3</sup> C. Benetti and J. Cartelier (1980), *Marchands, salariat et capitalistes* (Paris: François Maspero).

<sup>4</sup> It should be recalled that in the general equilibrium of the Arrow-Debreu type, money is of such little necessity that a clearing house placed under the authority of the auctioneer serves to permit the circulation of commodities.

filled in various ways from one society to another, it takes a specific form in the market society: wealth. Here, it may be noted that Keynes makes similar observations when he analyses what he calls the ‘precautionary motive’. What is original in our argument, however, is the way we define wealth—as what is liquid, or in other words, as what the others most desire. This self-reflexive definition of liquidity, which is partly advanced by Simiand when he evokes “this thing which is useful for nothing except being able to obtain what is useful for everything” (p. 45), lies at the heart of our analysis. It tells us that the fascination we experience with regard to wealth is always a fascination once removed, one which has as its object the fascination experienced by others. And through this self-reflexiveness, liquidity becomes a bond with others. Such a hypothesis is confirmed by the analysis of the Greek *agalмата* (precious objects) or works of art: the value of the object is not intrinsic but rather, is tied to the narrative associated with it, the summary of its own history which compels the admiration of everyone.<sup>5</sup> The more the object has circulated, the more value it acquires. This concept of self-reflexiveness allows us to conceive wealth and money as social ties.

The image of the market individual which results from such a conception of wealth and money as social ties is far removed from that offered by the *homo œconomicus*. Far from making sovereign, autonomous choices, this market individual experiences a constant need for recognition by others in the form of a desire for wealth, and this shared lack constitutes what the separated individuals have in common. The central expression of this bond, we would argue, is *mimesis*, in the sense of a behaviour orientated towards others in order to determine which object or sign is desired by the group. It can be shown that, under certain conditions, this imitative dynamic leads all the society members to focus on the same definition of wealth. And through this mimetic convergence, the object thus chosen then becomes money.

Our analysis thus makes imitation the central behaviour allowing separated individuals to overcome their separation—temporarily—by giving themselves a common frame of reference. This dynamic does not describe the real historical process at the origin of money but rather the endogenous process through which the market separation is temporarily stabilised. In this respect, *mimesis* provides us with the micro-economic bases of monetary trust which we were seeking.

It must be stressed that the monetary institution, like the mimetic focus underlying it, is never established once and for all. Market rivalries continue to exist and each group seeks to transform the rules of issuing money to its own advantage. The result is the emergence of private forms of liquidity which call into question the earlier monetary compromise. This is what we have termed “money competition”, a process which expresses the distrust of certain groups relative

to monetary rules which they consider too far removed from their interests. Such a conception leads us to the re-examination of monetary policy which is summarised in the following section.

## 2. Forms of trust and the interpretation of monetary policy

The regulation of monetary systems depends on the way trust in it is expressed. Through a historical study over the very long term (chapter 4 of the book), we argue that the most fundamental process associated with money is the abstraction of the unit of account. Indeed, the monetary measure is the basis of the social tie constituted by value. The preservation of this measurement over time is not guaranteed, however. It does not suffice to set up a unit of account, for its unanimous acceptance results from a common belief which must be shaped by the different rationales of belonging to a single community.

One source of collective representation is symbolic. It is attached to what we term *hierarchical* trust in the sovereign authority issuing the money, for the symbol is a collective representation which directs the mimetic focus towards a common reference. It functions by means of memory (maintained through rituals, both ancient and modern), of the analogical significance of the symbol and the sacred, of the charisma which the sovereign derives from a divine authority. Throughout a very long period of history, the link between the unit of account and precious metals was based on this hierarchical trust legitimated by the symbols of sovereignty.

But the spread of private money in the form of the signature accepted as payment marked both a rupture and a continuation with regard to the logic of the seal of sovereignty and in this way, established the unity of the monetary phenomenon. The forms of trust were modified under the impact of the competition of private currencies, whether in the form of banknotes or financial securities. With the problems of conversion posed by the rapid rise of private currencies, individual interests were expressed directly in monetary terms through doubts about liquidity. The symbols of sovereignty no longer sufficed to maintain trust. On the one hand, the interdependence of the monetary signs was organised hierarchically within the payments system, which gave rise to what we call *routine* trust based on repeated practices, learning experiences or rules of security structured into the private management of risk. On the other hand, the power that the creation and circulation of private currencies gave private agents allowed them to express criticism of public action intended to maintain the unity of account. The necessary affirmation of the hierarchy of monies became policy. But monetary policy cannot be arbitrary; it must be legitimated by its correspondence to what we designate as an *ethical* source of trust. Thus, modern money is only legitimate if it contributes to the common good of society members.

These three forms of trust, which are described at greater length in our book, have a major impact on the interpretation of contemporary monetary policy because of their radical opposition to the quantitative theory of money. By separating money and finance, by maintaining that money is external and constitutes

<sup>5</sup> On the *agalмата*, see Louis Gernet, “La notion mythique de la valeur en Grèce” in his *Anthropologie de la Grèce antique* (Paris: Flammarion, 1982), 121-179.

the net wealth of private agents, by attributing a stable behaviour to this component of wealth, monetarism eliminates the crises of confidence arising from the competition of private monies. For this approach, financial disturbances have nothing to do with money. Liquidity is conceived as an objective feature of payments technology, not as the effect of a shared but fragile belief in financial risks. To cite only one concrete example, the effects of the LTCM bankruptcy in September 1998, which caused the demand for liquidity to skyrocket because of the agents' flight in the face of all the private debts, are totally incomprehensible within this instrumental conception of money. The hierarchy is taken to be purely mechanical and is expressed in the form of the monetary multiplier. Once any question of trust is set aside, monetary policy is reduced to an affair of credibility relative to the quantity of money issued by the central bank. The only problem is whether or not the central bank does what it announces; to that end, the latter's objectives and rules of intervention should be stated clearly in advance.

With the financial liberalisation, there is no longer a central banker who can maintain that the demand for money is stable regardless of the aggregate chosen. Money is internal, endogenous and created at the instigation of private agents. The problem of guaranteeing the integrity of the unit of account over time cannot be camouflaged behind a so-called biunivocal correspondence between quantity of money and general price level. It has thus been necessary to reconstruct monetary doctrine in order to guide economic policy.

In an economy with internal money, there is no longer a dichotomy between nominal and relative prices. The recognition of inflation is ambiguous because every rise in nominal prices does not constitute inflation, in the sense of a decline of confidence in the unit of account as collective standard. This loss of trust is expressed in the excess of private indexations resulting from a strategic complementarity between competing economic agents. We may thus say that confidence in the unity of account results from a process of co-ordination which has multiple forms of equilibrium. It is up to monetary doctrine to establish the focal point on which the agents co-ordinate their inflationary anticipations. Over the past ten years, such a doctrine has been established; it consists of the flexible targeting of inflation, which provides the central bank with an institutionalised framework within which it can conduct a policy in keeping with the common good.

But the conception of the common good proper to the different democratic societies permits a variety of monetary policies in accordance with the doctrine of inflation targeting. The definition of the target may differ according to the central bank's perception of the inertia of the inflationary anticipations. While the range targeted must not be too high because of the risk of setting off indexations, it must not be too low either, because of the nominal rigidities which aggravate the social costs of deflation. In addition, it may be explicit or implicit (as is the case of the United States). The conduct of monetary policy depends on

the central bank's concrete knowledge of transmission channels which have been profoundly altered by financial liberalisation. Monetary policy should be concerned with detecting and checking the financial fragility which is fed by the interaction of high levels of indebtedness and speculation on asset prices. While remaining attentive to risks, the central bank should thus orient itself so as to attain an objective which is consistent with ethical trust: sustainable full employment.

(Translated from the French by Miriam Rosen)

## PUBLICATIONS

The following publications (working papers, articles, books) are signalled by the editors of Issues in Regulation Theory because of their relevance to the research program of the Regulation School.

Barbier, J.C. and E. Van Zyl. *Globalisation and the world of work*. Paris: L'Harmattan, 2002.

Bellon, B. *L'innovation créatrice*. Paris : Economica, 2002.

Boulin, J.Y. AND U. Muckenberger, *La ville à mille temps*, Paris, Datar, éditions de l'Aube, 2002.

Boyer, R. *La croissance, début de siècle, De l'octet au gène*. Paris : Albin Michel, 2002.

Boyer, R. "Institutional reforms for growth, employment and social cohesion: elements for a European and national agenda." In Maria João Rodrigues (ed.), *The New Knowledge Economy in Europe, A Strategy for International Competitiveness and Social Cohesion*. Cheltenham UK : Edward Elgar, 2002, pp. 146-202.

Boyer, R., "Le monde qui a changé la machine." In *Economia e politica industriale* (Milan) n°110 (2001), pp. 33-68, 2001.

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Boyer, R. "Actions collectives et publiques face à la diversité du marché du travail." In *Emploi : quelles innovations ?* Papers from the conference held on 21 June 2001, Paris : Caisse des dépôts et consignations, 2001, pp. 84-98.

Boyer, R. (with M. Freyssenet). *Entre innovations historiques et contraintes structurelles: Eléments d'une théorie des modèles productifs*. Paris: CEPREMAP, 2002-05.

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Schmid, G. AND B. Gazier (eds). *The Dynamics of Full Employment*, Cheltenham UK, Edward Elgar, 2002.

Triglia, C. *Sociologie économique*. Paris : Armand Colin, 2002.

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