Financial History

MONETARY PLURALITY IN LOCAL, REGIONAL AND GLOBAL ECONOMIES

Edited by
Georgina M. Gómez

ROUTLEDGE

Monetary Plurality in Local, Regional and Global Economies

The idea that each country should have one currency is so deeply rooted in people's minds that the possibility of multiple and concurrent currencies seems unthinkable. Monetary systems contribute to problems of high unemployment and social distress during financial and economic crisis, so reforms to increase the responsiveness and flexibility of the monetary system can be part of the solution.

This book discusses 'monetary plurality', which is the circulation of several currencies at the same time and space. It addresses how multiple currency circuits work together and transform socio-economic systems, particularly by supporting economies at the local level of regions and cities. The book shows that monetary plurality has been ubiquitous throughout history and persists at present because the existence of several currency circuits facilitates small-scale production and trade in a way that no single currency can accomplish on its own.

Monetary plurality can improve resilience, access to livelihoods and economic sustainability. At the same time, it introduces new risks in terms of economic governance, so it needs to be properly understood. The book analyses experiences of monetary plurality in Europe, Japan, and North and South America, written by researchers from East and West and from the global North and South. Replete with case studies, this book will prove a valuable addition to any student or practitioner's bookshelf.

Georgina M. Gómez is Associate Professor in Institutions and Local Development at the International Institute of Social Studies of Erasmus University Rotterdam, the Netherlands.

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Routledge
Taylor & Francis Group
LONDON AND NEW YORK

First published 2019
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

and by Routledge
711 Third Avenue, New York, NY 10017

Routledge is an imprint of the Taylor & Francis Group, an informa business

British Library Cataloguing-in-Publication Data
A catalogue record for this book is available from the British Library

Library of Congress Cataloging-in-Publication Data
Names: Gomez, Georgina, editor.
Title: Monetary plurality in local, regional and global economies / [edited by] Georgina M. Gomez.
Description: 1 Edition. | New York : Taylor and Francis, 2018.
Identifiers: LCCN 2018009213 | ISBN 9781138280281 (hardback)
Subjects: LCSH: Money. | Foreign exchange. | Banks and banking. | Sustainable development. | Monetary policy.
Classification: LCC HG221 .M81414 2018 | DDC 332.4/6—dc23
LC record available at https://lccn.loc.gov/2018009213

ISBN: 978-1-138-28028-1 (hbk)
ISBN: 978-1-315-27223-8 (ebk)

Typeset in Times New Roman
by Swales & Willis, Exeter, Devon, UK

To the memory of my father

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Acknowledgements

This book gathers together my thoughts about money and complementary currencies from a period of almost two decades. As such, I kindly remember the many persons that have been part of this journey. I especially wish to mention Professor Emeritus Bert Helmsing, Professor Jérôme Blanc, Professor Akinobu Kuroda and Rolf Schroeder, with whom I framed my thoughts in many engaging and lengthy discussions across several scenarios in the world.

I am indeed grateful to the persons that have collaborated in this project and indebted to their patience because the book publication has taken longer than it should have. I would mainly like to acknowledge the goodwill and positive attitude of the contributors during the production of this book. Working with researchers in three continents could have posed a challenge from the outset, and it was, instead, nothing but a pleasure. I am grateful to the work of the anonymous reviewers that also contributed to this collective project.

I would like to acknowledge the funding of the International Institute of Social Studies of Erasmus University Rotterdam through its Innovation Fund 2013. The grant allowed us to organise the 2nd International Conference on Complementary and Community Currencies: Monies for Development. Some of the papers presented in that event were the basis for chapters included in this volume. A research grant won by Akinobu Kuroda at the University of Tokyo made it possible to organise two other events on De-Teleologising the History of Money and Its Theory, held in Tokyo and Paris in 2014 and 2015, respectively. The series of events facilitated this book as well as the interaction of a network of researchers on monetary plurality and complementary currencies. The configuration of the network also supported the foundation of the Research Association on Monetary Innovation and Complementary and Community Currency Systems (RAMICS).

I especially thank the Civic Innovation Research Initiative, research programme of the International Institute of Social Studies, for stepping in to cover some of the production costs of this book. The grant includes the English proofreading and editing that Soumita Basu has performed with care and professionalism, as always. I wish her good health and, as they say in India, many returns of the day.

I am equally grateful to Paula Sánchez de la Blanca for her thorough and prolonged assistance in the preparation of this manuscript. She is a graduate who makes us proud.

I am indebted to the Routledge team of editors for their patience in the completion of this book through so many obstacles and delays that would be too long to detail.

I most especially thank family, friends and colleagues that fed my will to see it through.

– Georgina M Gómez

1 The monetary system as an evolutionary construct

Georgina M. Gómez

1.1 Introduction

The history of money reflects a story of innovation of several millennia in which agents and societies have experimented with a myriad of money-things and organisational models. A key feature of this long and creative construction relates to the dichotomy between plural and singular money systems. Monetary plurality is defined as the concurrent existence of more than one type of money in a particular space, as opposed to monetary singularity, which addresses a monetary system with one type of money. Monetary plurality may happen at the local, regional or national level, while monetary singularity occurs in the sovereign space of a country or monetary union where a legitimate authority can impose it. Money includes types of paper money as well as metal, commodities, tokens, and electronic and virtual payment systems. This introduction will unpack what we mean when we say 'more than one type of money'.

The issue has been debated for several centuries and it is far from settled. While most people nowadays are used to thinking along the principle of one currency per country, hundreds of agents and networks around the world are presently active in establishing parallel currencies at both the local and global levels. The latest arrival of digital currencies and the contestations of monetary unions like the Eurozone are further evidence that the construction is ongoing. They are indications that we are standing on another spot along the evolutionary path and that the organisation of money continues to be in progress.

This book comes at a timely moment to understand why the issue of monetary plurality versus singularity has not been settled. It aims to disclose how societies have dealt with the organisation of monetary systems along the tension of one versus multiple moneys and what led to their institutional choices and outcomes. It represents a collection from the production of two partially overlapping international research networks on monetary innovation, institutions and complementary currencies. These research groups met in the biennial conference on Complementary Currency Systems at the International Institute of Social Studies of Erasmus University Rotterdam in The Hague and in two workshops on De-Teleologising the History of Money and Its Theory in Tokyo and Paris. One of the prominent characteristics of this book lies in collecting the views of researchers in Europe, Japan and Latin America, and their studies in three continents.

The authors in this volume do not share a common view on monetary plurality per se but share an interest in understanding money as an institution, a product of social, economic and political life that is still in the making. An institution is defined as 'a socially embedded system of rules' and is characterised as the kind of social structure that matters most in the social realm (Hodgson, 2006: 2). Institutions, like all social structures, indicate regularity. They are, however, special social structures because they also signal the socially acceptable actions among several technically possible options. For instance, the institution of money comprises the unit of account that is acceptable to use as a standard of value to measure prices, savings, contracts, and debts. Other rules indicate the acceptable ways to obtain, keep, use, and convert money to other units of account. Monetary institutions also involve organisations that regulate money in the territory where it is valid, who is allowed to make it, what it looks like, and what happens to those that alter its appearance or counterfeit it. In this line, money is the object that binds stable patterns of interaction among social, political and economic agents for the actions mentioned (Gómez, 2009).

In terms of institutionalisation, a single money system is relatively a newcomer in economic history, while monetary plurality is not. Monetary singularity became normal with the consolidation of nation-states around the 19th century. From a political point of view, states considered it a priority to assert their sovereignty in their territory by unifying their money (Gilbert and Helleiner, 1999). It was not before the late 1800s that central banks were concerned with issuing a national currency and enforcing a monopoly on the issuance of money. In the case of Great Britain, the 1820s were occupied with a debate between two main positions, the Currency School and the Banking School (Ingham, 2004; Schwartz, 1989), which discussed monetary singularity against allowing for several issuers and currencies. As a result of these debates, England and Wales started having one currency in circulation issued by the central bank that enforced its monopoly over issuance decisions through the Bank Charter Act of 1844. In practice, however, monetary singularity was contested repeatedly. In the United States monetary plurality continued until later and it was only in 1907 that the Federal Reserve was given the 'mandate of providing a uniform and elastic currency' (Bordo, 2007).

Fractional monetary plurality, in particular, continued to be salient in most countries until the present day. It is known worldwide as the 'problem of small change' (Carothers, 1967) in reference to the small denomination coins and notes which cost more to be produced than their actual face value. The scarcity of small change affects everyday transactions, and especially low income buyers who spend a significant percentage of their income in daily necessities (Baubeau, 2014). It was one of the reasons why until a century ago there were moneys used by the rich and moneys used by the poor (Cohen, 1999), with combinations in between. The scarcity of small change even delayed the adoption of money, because it led to exclusion of segments of the population that could go by without money. They consumed their own production or bartered. The differentiation of uses of money by social strata is an issue still under scrutiny, as is their regional and local differentiation (see Gómez, Chapter 4; Gómez and von Prittwitz, Chapter 7; Fare, Chapter 10, all this volume).

In conceptual terms, monetary theory has been mostly fragmented in explaining monetary singularity and plurality (see Blanc et al., Chapter 2, and Blanc, Chapter 3, both this volume). There are several ways of organising money as Nigel Dodd asserts in his 2014 book, *The Social Life of Money*. One of the ways is to have one type of currency per sovereign country and bank notes issued by the state, normally through the Central Bank. Other agents, namely banks, multiply the monetary base by giving loans according to legal regulations, so that a vast majority of money used by the public is actually being created by the banks through these credit expansion mechanisms. It is a model centred on the principle of scarcity; frugality in issuing money by banks and politicians is celebrated as a virtue (Dodd, 2014).

However, that is not the only way to organise money and that is where monetary plurality comes in, Dodd (ibid.) continues. Complementary currencies may be specifically designed to benefit groups that earn irregular or small amounts of money (see chapter by Kobayashi et al. in this volume) or to empower issuers by taking back power from the central banks and private bankers, so that they can promote local economies and subnational finances, regenerate social ties, or encourage desirable behaviour such as volunteering and environmental sustainability (see chapters by Miyazaki and Kurita in this volume). To pursue these goals, complementary currencies tend to follow the principle of abundance, and issue as much money as needed to support the goals and the aspirations of the agents involved (see chapter by Fare in this volume). Monetary plurality, in general, has multiplied markedly in the last decades (Blanc, 2016). This book discusses monetary plurality in connection to these goals and is conceived as a theoretical and practical toolkit to explore the risks and potentials of monetary plurality.

1.2 Perspectives on the ontology of money

The distinction made by Dodd (2014) between the principles of scarcity and abundance in monetary systems reflects on an ontological issue. This subsection aims at unpacking the meanings of monetary plurality and singularity. It will first discuss the perspectives on the origins and meanings of money to further develop the distinctions between monetary systems with one or several types of money. Considering the diversity of money and that its history is almost as long as the human capacity to calculate and write, there is no simple answer to basic questions such as what money is and how it started (Smithin, 2000). What money is and does also depends on the time and place that we pose the question. Such contextualisation does not mean that we are unable to define it. It is a note of caution that says that the ontology of money requires us to not focus on the money-things but on the stable patterns of social interactions, in which agents measure value, make payments, cancel debts and keep savings. Moreover, not all money has performed these four primary functions at the same time or in the same ways (see chapters by Blanc et al., Gómez, and Kuroda in this volume).

Dodd's distinction of the two main perspectives of money follows, in fact, an original differentiation in Joseph Schumpeter's book *The Theory of Economic Development* (1961 [1934]). Schumpeter distinguished between a metallist and an anti-metallist conception of money. The metallist conception proposes that a commodity of intrinsic value emerged as preferred medium of exchange in barter-based markets. Metals and other goods considered to have intrinsic value had a predetermined limit fixed outside the economic system, so this conception builds on the principle of scarcity. It is the dominant view in economic and policy circles, at least since Menger published *On the Origin of Money* (1892). Instead, the anti-metallist conception emphasises the social production of money as an institution (Bell, 2001; Ingham, 1996; Wray, 1998) and centres on money as a unit of account that is created by credit relations (Ingham, 2004; Keynes, 1976 [1930]; Wray, 1998, 2004). Money created as debt-credit social relations is not limited to a predetermined amount of a money-thing with intrinsic value but is endogenously fixed within the economic system. Its issuance has a limit, of course, but the limit is posed by trust in the social rules and legitimate authority that regulates and sustains the social institution of money. Michel Aglietta (2002) and Charles Goodhart (1998) further develop the distinction as a realist versus an institutionalist approach, respectively. We will now take a closer look into both positions and their relations to the perspectives on the origins and meanings of money.

The dominant view among economists is the commodity theory of money, which has fed the realist or metallist position. It argues that a single money system arose because several money-things competed with each other until the most efficient one in terms of transaction costs eventually displaced the less efficient ones (Menger, 1892). Money changers acted as points of interphase between the single currency of one area and the single currency of other areas. The outcome of one country = one money is hence presented as the winning option after a period of competition in plural money systems. This account attracts and dominates policy circles because, apart from becoming a credible explanation, it justifies a policy option in their hands by securing the monopoly over the issuance of money.

From a historical point of view, there is a broad variety of objects that were used as means of payment in different settings and periods in time, used apparently to facilitate trade. Anthropologists' and historians' studies of 'primitive monies' include the cocoa beans of the Aztecs, the wampum of the North Eastern Mexican Indians, the cowrie shells of the African West Coast, tea blocks in Upper Asia and Siberia, dates in the Sivah-Oasis, wax cakes on the Amazon, cod fish in early Iceland, ivory and glass coral in Portuguese Africa, small strips of cotton and sugar in British West Indies and tobacco in Maryland and Virginia, among others in a very long list (Melitz, 1974). Primitive money, as it is often referred to, was always local, the chosen commodity was contextual, and payments were sometimes effected only once from one person to another for a specific purpose. Einzig (1966) underlined that whatever money-thing was used, its emergence marked a transition from a self-sufficient economy to one based on production for exchange, and later to general trade in markets with a large number of participants. In societies where trade played a major role, a general equivalent often developed spontaneously as means of payment.

According to this perspective, a certain commodity became acceptable as money 'when some alert people realised that they could benefit by holding greater stocks of the most marketable commodities than they had immediate use for' (Glasner, 1989: 6). Thus, the chosen commodity became means of payment and originated money in an attempt to reduce the transaction costs of barter (Menger, 1892), and solve the double coincidence of wants (Jevons, 2001 [1875]). This means that when there are means of payment, the problem of finding an immediate direct buyer and seller for a certain good is solved and the transaction costs of exchanging are minimised, hence making that commodity the most efficient channel to conduct trade. In this way, Melitz (1974: 77) defined money as 'all goods that are held in significant measure in order to economise on transaction costs in the activity of trading a variety of other types of goods'.

Moreover, the chosen money-thing can be hoarded to make payments later, so metals like copper, brass, gold and silver were preferred as common means of exchange. Metals have the key characteristics of durability, divisibility and portability. They were eventually standardised into coins and later industrialised with the appearance of the mint. Their value as means of payment was determined by the amount of the precious metal that they contained and, later on, by the amount that they represented. To economise on the use of metals and to avoid risky transportation, the amounts arose as a symbolic substitute for gold or silver (Wray, 1998). By then, the public had become used to the denominations of the various coins and notes, and these are the origins of fiat money, according to the commodity theory of money. For Hicks, each step represented 'ever more sophisticated ways of reducing transaction costs' (Hicks, 1967), as societies evolved from local tokens and stones to golden coins and then national bank notes to the most recent form of digital cash. From this perspective, money is a creature of the market, an efficient solution to facilitate exchange which is not related to any particular time or place or historical sequence.

This theory on the emergence of monetary singularity has been criticised from both the analytical and empirical angles. Among other arguments, some authors note that it is difficult to see how money could have been unified across civilisations that barely communicated with each other. Moreover, it is counterintuitive to think that this coinage could reduce the transaction costs of bartering (Goodhart, 1998; Wray and Forstater, 2006). Medieval coins were extremely varied in weight, denomination, alloy and fineness; they were chipped and adulterated in various ways, and sometimes they had the same face value but different exchange value. For example, in Merovingian Gaul there were 1200 currencies, most of them issued by private individuals (MacDonald, 1916 quoted in Wray, 1998). Besides, transaction costs could hardly have been the driving force behind creating monetary singularity. There were complex civilisations, advanced in production and trade and with a few million inhabitants like the Incas or the Phoenicians, that managed their economy without any kind of money (Melitz, 1974). John Maynard Keynes, unlike Hicks, considered that commodity money might have functioned as a 'convenient medium of exchange . . . but if this is all, we have scarcely emerged from a state of barter' (Keynes, 1976 [1930]: 3). There is more to the origins of a single money than the preference for a commodity. This explanation on the evolution from gold to scrip is not credible, especially after the abandonment of the gold standard and the dissemination of electronic and digital money.

The alternative draws from sociology and heterodox economics as an institutional theory of money. This version does not dispute that specific commodities have originated as a means of payment throughout history but rejects that these were self-organised choices that resulted from the inherent efficiency of one of these money-things. Instead, Ingham argues that a monetary system is a set of institutions embedded in a society (1996, 2004, 2006). The construction of money follows an evolutionary structuration process along the social, economic and political needs, and possibilities that rose with impersonal exchange (Seyfang and Pearson, 2000). When a community grows, it requires a standard and stable unit of account as reference of value (Aglietta, 2002). The money-thing was present but its transition as unit of account was not spontaneous.

The institutionalist view has several strands because they emphasise different aspects. One strand places the origin of money as credit money and argues that it did not emerge out of barter but out of obligation to cancel debts with various authorities, such as sovereigns or priests to whom religious payments had to be made (Wray, 1998, 2004). These local, religious or community authorities would create a unit of account when they proclaimed that they would accept certain money-things at explicit values to cancel taxes and religious debts. While barter was used for local and small trade, larger transactions such as dowries and inter-regional trade were conducted on the basis of credit (Innes, 1913).

The oldest archaeological findings of money are consistent with this perspective. The tallies were written promises to cancel debts; they were 'sticks of squared hazel wood, notched in a certain manner to indicate the amount of the purchase' found abundantly in old Mesopotamia (Wray, 1998: 40). They were already being used 2000 years before the oldest known coins were minted (Ingham, 2001). They were frequently transferable and negotiable so that clearing between several merchants holding tallies from the same creditor/debtor was possible. When coins were developed, they were renovated versions of the tally: evidences of debt (Wray, 1998) that could be transferred and written off against one another.

Indeed, the next important innovation in the evolution of money was the technique to expand personalised debt relations into anonymous credit money that could circulate and balance out against each other. When trade resumed in the Mediterranean in medieval times, the equivalent of bankers arrived on the scene in northern Italy. These bankers exchanged local coins for those of other cities. Gradually, rather than giving actual coins, they started giving bills of credit and they kept the gold in store. And then they started issuing more bills than the actual coins they had in stock because they could balance the deposits of one client with the payments of another and people were unwilling to carry physical gold. Even if payments continued to be named for much longer, they were transferable, so it was possible to balance them out among customers and bankers. Banks became clearing houses instead of creators of money 'with the stroke of a pen' (Glasner, 1989).

The networks of merchants and bankers met regularly to transfer and cancel debt and credits in several local currencies. A market for bills of exchange emerged, when trade along and beyond Europe became active (Boyer-Xambeu et al., 1994). Bills eventually were detached from any direct relationship to actual commodities and, rather, began to serve as autonomous media of exchange and means of payment. Eventually, credit became detached from both goods and persons, transforming a deferred payment scrip system into money that could circulate anonymously. The value of these liabilities depended on the willingness of people to hold them (Glasner, 1989), and they were specifically designed to scale up credit instruments in larger networks of users (Kim, 2011).

John Maynard Keynes (1976 [1930]) argued that the transition to full transferability of bills of exchange was a major structural innovation in the evolution of money: while barter is bilateral and local, transferable money makes it possible to develop an extensive multilateral decentralised market around the world. This was a plural money system, in which private credit-monies based on bills of credit became integrated with metal coinage minted by kings and authorities at explicit units of account. Monetary plurality hence incorporated public and private monies. Depersonalised, transferable promises of pay were thus woven into deep and complex layers of debt in which the trustworthiest notes were kept as base money to back the rest of the system.

The monetary system continued to evolve when states themselves joined in issuing promises to pay, accompanied with some pressure for their acceptance (Wray, 1998). The Bank of England in 1694 was the benchmark state institution created to organise these layers of credit, although it was not until almost 150 years later that it started imposing the circulation of its own promises of payment to crowd out private golden coins in England and Wales (Ingham, 1999). In the 19th century, states started centralising the monetary system under monopoly control and outlawed third-party issuers and currencies, such that money became a creature of the nation-state at the outset of modernity. The monopoly, however, is still incomplete and contested (see chapters by Théret, Blanc et al., and Kuroda in this volume).

Schumpeter considered that the transformation of long-term debt and other illiquid assets into short-term instruments or money with a set unit of account was the quintessence of capitalist monetary practice (Schumpeter, 1994 [1954]: 613). Third-party debts are cancelled by other third-party debts, although this can be done, at least initially, only within social networks in which there is either minimum trust that credits will be honoured or built in institutions to penalise an untrustworthy payer. It allowed for the expansion of the system and a number of other institutions appeared to support this monetary system. It produced a qualitative transformation in credit-debt relations and in monetary production to dematerialised or abstract money. As Ingham (1999: 80) reminds us, credit money was not only a facilitator of exchange but a 'transformative power'. Monetary plurality is compatible with the credit-money approach and historically, several currencies coexisted. The poor, for instance, used mainly low denomination tokens, mostly privately issued and not easily convertible into the monies of the wealthy (Gilbert and Helleiner, 1999). Money creation is decentralised and expands with the establishment of every new credit-debt relationship.

This endogeneity of monetary creation was already understood by Keynes (1930) and is the foundation of post-Keynesian monetary theory. It is critically at odds with the commodity perspective of money. In *The Philosophy of Money*, Georg Simmel (1982 [1900]) presented a view that resolves the tension between the two perspectives, to some extent. Simmel argued that money is a norm in the sense of an abstract expression of a community that establishes social relations of trade and sets shared mental structures. While trade creates social interaction, money appears as an abstract object out of these interactions and subsequently reinforces trade relations and trust on the unit of account. As it is an intersubjective abstraction to express value, money is based on trust in the community where the units of account originate and which builds 'communities of payments'. This explanation leaves open the possibility of monetary plurality if various communities of payments coexist and trade across them is enabled by stable exchange rates. However, there is still the question of how stable relationships among units of account are reached.

Several authors (for example, Wray, 1998; Ingham, 2004; or Keynes, 1976 [1930]) underscore that the definition of the unit of account by the collective authority was key in the transition to monetary singularity. Tax collection expressed an exchange rate at which different commodities would be accepted for the obligations owed to the state. In times when there were countless types of coins, the authority's measurement was used to value the many forms of commodity money in circulation into a single unit of account. Acceptance by the state also indicated a hierarchy between monies (Bell, 2001) and, in the long run, it would steer the system towards the money accepted by the state. In other words, the actions of the state established a preference for monetary singularity. Later on, the state consolidated the central position of its money by the rule of law, coercion and force (Aglietta and Orlean, 2006), so the state wiped out other units of account and currencies. Still, the principle of abundance was not ruled out; money was primarily a unit of account, so other credit moneys could circulate and were not limited to a fixed amount.

Another strand within the institutional perspective of money offers a different view on the role of the state and monetary singularity. It argues that the role of the authority did not stop at choosing a specific money-thing and guaranteeing the value of the unit of account (Aglietta, 2002; Aglietta and Orlean, 2006; Goodhart, 1998) but includes creating a single acceptable money-thing. The state became the monetary authority and imposed an abstract means of payment that served as symbol of its sovereignty, its capacity to levy taxes and to indicate what currencies were legitimate across its territory (Goodhart, 2006). Once the state decided to declare one type of money as the valuable money-thing (gold or whatever was accepted as payment for taxes), others had to use it. Aglietta (2002: 50) characterises the centralisation process as 'interlocking networks of networks with the central bank at their fulcrum'.

The state centralised the issuance of coins from bullion to standardised stamped coins and later, fiat money. The theory hence receives the name of Cartalist approach, from the Italian 'carta' for paper and was elaborated by Knapp (1973 [1924]). It establishes a division of labour in which there are two types of social actors in a centralised monetary system: those who make money (the state) and the public that uses it (Ingham, 1996). In the 19th century, 'the forging of national, uniformed monetary systems was a central project undertaken by states across the world' (Gilbert and Helleiner, 1999: 4). As central and only issuer, the state could easily decide on the limit of issuance. It could apply the principle of scarcity, consistent with its desire to affirm its control over the economy.

The origin of modern money was thus intimately related to the nation-state (Goodhart, 1998) and modernity. An important critique of the Chartalist approach argues that money existed as a social construction long before the nation-state came to impose the principle of control and scarcity into the system. In rigour, this theory explains the completion of the modern money system based on monetary singularity and it is not incompatible or separate from the credit-debt perspective to the origin of money. There is a historical gap of a few thousand years before the nation-state appeared in the long evolution of money. Several currencies were used in distant trade long before there were official monetary systems, before nation-states used it as a symbol of sovereignty and before rational authorities collected taxes (Seyfang, 2001). However, in present times, modern money is centred on the state which implies that the modern monetary system embeds the many limitations and failures of states (see chapters by Théret in this volume).

Based on these perspectives on what money is and how it developed, we can now unpack the meanings and origins of monetary plurality and singularity (Table 1.1).

1.3 Modern money and monetary singularity

The long and innovative process of organisation of the modern monetary system converges on the principle that one country = one money. The role of the nation-state was critical, but it is not the only factor that supported the social construction of modern money as, primarily, a creature of modernity. Aglietta (2002) identified three parallel processes that led to the institutionalisation of modern money, defined as a depersonalised, dematerialised, abstract, transferable promise to pay (Smithin, 2000). The first force in the construction of modern money is a process of abstraction and consequent separation from persons and physical money-things. In the credit theory of money, credit-debt relations depended on the trustworthiness of the issuers. With the scaling up of the monetary system, money became increasingly dematerialised and abstract, and separated from the issuers. Modern money is anonymous, depersonalised and abstract, hence the perfect foundation for modern rationality, as Max Weber expressed it (1978). Abstract money is compatible with monetary singularity as well as plurality. A second process in the construction of modern money is the social and political control over 'monetary spaces' (Ingham, 2002). Monetary singularity implies that the state concentrates