

Rethinking the governance of money in socio-economic development: sketching out a framework for an alternative monetary system

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SYNOPSIS

Operative poverty eradication and environmental mitigation depend on investment, and investment needs sufficient money (funds) – giving an obvious basic example that relates money to development. However, mainstream economics argues that what we need first is the accumulation of saving or taxation. In the commodity-form theory in economic orthodoxy, money is pictured as neutral, as a reflection of ‘real’ activities; and an external/exogenous rise in the money supply will only feed the inflation monster without real effects. In a theoretical and interdisciplinary study, my PhD project contests this idea and explores the role of ‘money’ in ‘capitalism’, to make a step forward towards an alternative monetary system that can serve better socio-economic development.

Money is a social relation. Its emergent configuration in a new model of banking, i.e. involving the systemic creation of money, has been a key integral part of capitalism as it shapes the economy – ‘credit-driven economy’. It signifies the key potential of capitalist economies for allowing investments that are not bounded by savings but permitted instead by (credit) money, thereby refuting the theory of loanable funds. Despite this promising capacity, a big body of studies shows that monetary systems under capitalism contribute to myriad unfortunate outcomes, from inequality and lack of proper socioeconomic development to environmental problems. The recent/current financial crisis is a major example and reignited debates over the power of money creation, leading to the (re)emergence of various proposals, ranging from Full Reserve Banking, or Sovereign Money, to Modern Money Theory. In the same vein but with a fresh scope, this study makes its contribution to debates over alternative governance of money, through the following five analytical steps. The seminar gives an overview, including particular attention to the final step.

Money in the core-narrative of capitalism. This step is to synthesise a money-related reading of capitalism, illustrating how it imparts its essence to the ‘practice’ of development with the help of its dynamic generative force. Drawing on works of Albert Hirschman, Joseph Schumpeter, and Georg Simmel, the synthesis identifies a core-narrative at the heart of capitalism in which the character of prime movers is defined in relation to the unending-money-accumulation (M-M’),

called here money-end-logic. Here money became a conduit to re-channelise energy nested in the pre-capitalist power structure into the capitalist order.

A socio-ontological meaning of investing-before-saving, in virtue of the systemic-money-creation. The systemic-creation-of-money is exercised in the interconnected balances of banks and firms. As noted above, the emergent configuration of the monetary system within capitalism opens the possibility of investing-before-saving, according to which the economy expands alongside an ever-working machine of money creation (M-M'). Intervening in the debates raised predominantly by Post-Keynesians and Monetary Circuitists, this study brings the insights of social ontology, from and inspired by John Searle and Tony Lawson, into the economic account of investing-before-saving. If money is a social relation and the constructive determinant of its existence is our collective belief, how and why does the difference between investing-before-saving and saving-before-investing matter? The answer, framed in a social ontology of money, is found in the exploration of the concept of 'creative destruction', as it would be only successful when it can boost effectively 'coordination' in the entrepreneurial production organisation. 'Coordination' here depends on an epistemic formation devised by money-creation. It renders the systemic creation of money (M-M') as a social coordinating technology, exercised in a sphere which is epistemologically objective but ontologically subjective, i.e. purely societal rather than physical. Correspondingly, informed by a critical appraisal of Searle and Lawson, the concept of 'ontic obscurity' is seen as pivotal for this coordination effect.

An implication of a causal connection between the two-level role of money in capitalism. The symbiosis of M-M' as money-end-logic with M-M' as systemic-money-creation purports a *two-level source of dynamism*. Is there any causal relation between the two? It is examined via an analysis of the successive setting of money creation in which banks, firms, and wage-earners are aligned. The confluence between the position of capitalists in M-M' as money-end-logic and their position in M-M' as systemic-money-creation discloses a causal connection. The implication is, therefore, the inadequacy of reformist proposals that only concern the technical forms, as they usually do, so long as M-M' (as money-end-logic) is the chief factor that drives the system forward.

A critical value assessment from the standpoint of development ethics. Any reformist proposal, at the levels of governance and policy-making, needs value-guidelines. To this end, some ideas from development ethics imbue this study; however, existing ideas there fall short, in some aspects, for coping with dynamic generative attributes of capitalism, particularly of its modern institutions. The study involves elsewhere a critical discussion as to how development ethics can go beyond its usual restrictive manner, in order to be more generative.

Sketching out a framework for alternative governance of money. The integration of the proposed explanatory account of 'money in capitalism' into the value-framework of development ethics lays a groundwork to initiate rationales for monetary reform. The opening strategy is to detach the M-M' as money-end-logic from M-M' as systemic-money-creation. A could-be scenario, therefore, is to identify conditions of a counter-narrative in which prime movers are

routinely invigorated by collective incentives other than endless-money-accumulation – signifying a type of social entrepreneurship.

At the next level, as in capitalism, the counter-narrative should be elaborated into an array of credit/debt rights and obligations, i.e. a new accounting arrangement. It is intended to satisfy the key value-guided diagnosis: if the systemic creation of money becomes possible with regard to the totality of society, it should serve the whole society as well with the aim of socio-economic development and within a monetary governance characterized by democratic and transparent principles. To this end, basic accounting principles are suggested for two interconnected entities: (1) a national development account and (2) a type of developer companies. The former is the place to issue new money only as a liability to all members of society; while the latter is the locus for a kind of social entrepreneurship. These two elements introduce a basis for a system-to-be-governed. Centred around the proposed accounting settings, other dimensions are and will be (as research in progress) developed.

(Further materials are available from the author; yazdanpanah@iss.nl)