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Abstract

In his seminal work, *The Great Transformation*, Karl Polanyi describes land, labor, and money as 'fictitious commodities' that allow for the generalization of the market over other forms of economic relations. This paper examines the historical evolution of money as a fictitious commodity, and how this commodification allowed for and facilitated an apparent depoliticization of the monetary system. The political invisibility of money that marked much of the twentieth century was facilitated by an extension of the commodity logic of money embedded within classical monetary theory. The disembedding of the monetary system from the socio-political realm that had been driven by gold standard pressures was maintained and even strengthened in the era of Neoliberalism, as the dictates of the market dominated monetary and fiscal policy. Central banks played a key role in this process, acting during the classical gold standard era as protectors against market liberalization in the context of Polanyi's double movement, and shifting later to enforcers in that same movement. 'Sound finance' and a deference to balance budgets reflect the commodity-logic of money, which is, at its core, a politics of monetary depoliticization. As the apparent apolitical and technocratic nature of central banking is contested amid a confluence of social and economic crises in recent decades, this paper considers what role central banks play presently, and how this is connected to the nature of money as a fictitious commodity and its potential re-politicization. Polanyi's argument of money as a fictitious-commodity points to the deeply socio-political nature of money, and, drawing on the ideas of the 'double movement', the need for new forms of monetary-democracy to re-embed the monetary system.

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Money as a Fictitious Commodity and the Politics of Monetary Depoliticization

Colleen Schneider[1]

1. Money as commodity

In his seminal work, *The Great Transformation*, Karl Polanyi lays out three 'fictitious commodities' - land, labor, and money - that allow for the generalization of the market over other forms of economic relations (such as reciprocity and redistribution). The character of land and labor as fictitious commodities follow a similar logic - both are natural entities which have been subsumed into the market; land via rents and people themselves via wage labor. "Labor and land are no other than the human beings themselves of which every society consists and the natural surroundings in which it exists" (Polanyi, 1985 [1944], p. 71). The logic behind money as a fictitious commodity is altogether different. Money is of course not something naturally existing, but a product of social relations between people. It exists independently of, and prefigures, commodity production and exchange (Graeber, 2011; Ingham, 1996). Polanyi described money as "a token of purchasing power which, as a rule, is not produced at all but comes into being through the mechanism of banking or state finance" (ibid., p. 72). This understanding of money stands in contrast to the classical theory of money, whereby "money is a commodity the amount of which is controlled by the supply and demand of the goods which happen to function as money" (ibid., p. 131). The commodity fiction of money thereby creates artificial scarcity and forces the money supply to act as a commodity market. This monetary scarcity is the result of "carefully constructed social and political arrangements" (Ingham, 2004, p. 22).

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Building upon this understanding, an aim of *The Great Transformation* was to show the folly of subjecting money, and specifically monetary policy, to unregulated "free markets". Polanyi bridges this with the idea of the double movement - the ongoing struggle between disembedding forces of the market and countermovements for social protection that emerge in response to it. In this context he described central banks during the Classical Gold Standard era (1875-1914) as forces of social protection, a countermovement of non-market coordination reacting to the commodification of money that was enforced through the international gold standard. Central banks were reacting to the market liberalizing force of commodity-backed money, which was intended to maintain "the determination of the monetary unit's purchasing power independent of the policies of governments and political parties" (Mises, 1953). Central banks served as protectors against this logic, forming a double movement around the fictitious commodity of money as convertible to gold (Polanyi, 1985 [1944], p. 132). In this capacity, central banks and the domestic monetary system protected the domestic economy from the vicissitudes of the international monetary system.

In considering the evolution of money as commodity, it is important to bear in mind that money derives its legitimacy from the same implicit political covenant that grounds the state - it is always a political creature. The political *invisibility* of money that marked much of the middle and later portion of the twentieth century was facilitated by an extension of the commodity logic of money embedded within classical monetary theory. The idea of "sound money" was carried forward into the idea of "sound finance". This logic effectively extended the fictitious commodification of money, and its apparent apolitical nature, well after the gold peg of the Bretton Woods system was abandoned. The disembedding of the monetary system from the socio-political realm that had been driven by gold standard pressures was maintained and even strengthened in the era of Neoliberalism, as the dictates of the market dominated monetary and fiscal policy.

In the time since *The Great Transformation* was written the role of central banks has shifted from "protectors" to "enforcers" of market liberalization - undergirded by this apparent depoliticization of money. Within the regime of financialized capitalism that emerged following the breakdown of the Bretton Woods system, supposedly apolitical central banks bowed to the logic of government bond markets as the arbiters of fiscal space, while inflation, regulated through interest rates, became the key (and often sole) focus of monetary policy. In the process, the role of central banks has again shifted and the relationship between central banks and global financial markets was flipped on its head. The remainder of the paper will explore this evolution in more detail and consider what this implies for the role of central banks as actors in the double movement today.

2. FROM COMMODIFICATION TO DEPOLITICIZATION

The fictitious commodification of money has a historical trajectory paralleling that laid out for land and labor in *The Great Transformation*. While Polanyi focuses largely on the 19th and 20th centuries in his discussions of money in the text, two key developments occurred in England at the end of the 17th century that drove this trajectory - the establishment of the Bank of England as a public bank in 1694, and the Recoinage Act of 1696. Both took place during the Nine Years' War, a period of monetary turmoil with silver in short supply domestically. Under pressures of war finance the British government agreed in 1694 to allow promissory notes of wealthy investors, issued through the Bank of England, to effectively circulate as state-backed currency.[2] This marked the advent of public debt, and a turning point toward the banking system as we know it today, whereby the government delegated its sovereign power over currency issuance to politically powerful private investors.

John Locke's intervention in the English Recoinage Crisis shortly thereafter was equally pivotal. By the end of the 17th century the market value of silver exceeded the value of the coins themselves coin clipping was rampant, and trust in the monetary system was tenuous. Locke argued that the government should establish and fix permanently the relationship between the quantity of metal in money and its value, thereby removing the monetary standard from the sphere of political interference. [3] Locke argued that money's value be grounded in the "intrinsick value" of silver. Particularly interesting in this case is that he was making an explicitly political argument to insulate the monetary system from political and social forces, with the aim to disembed the monetary system and naturalize money as a commodity (Appleby, 1976). Drawing on Polanyi, Stefan Eich refers to this as a "politics of depoliticization", as "commodification never spelled the disappearance of politics or the state but rather its peculiar modulation" (Eich, 2018, p. 4). Even today this intervention shapes common understandings of money and value through ideas of "sound money", but at the time it did nothing to address underlying problems driven by the trade balance, thus leading to further crisis and disarray in the domestic economy and necessitating intensified colonial expansion.[4]

[2] The investors delivered 1.5 million pounds in banknotes (promises to pay) which the government spent into circulation. Critically, the government accepted the banknotes back in payment for taxes.
[3] Namely, removing the ability of the Crown to adjust the value of circulating coins, or remint coins with an altered metal content. Locke first laid out this argument in a letter to a member of British Parliament in 1691 entitled 'Some Considerations of the Consequences of the Lowering of Interest and Raising the Value of Money'.
[4] The monetary crisis eventually stabilized through an expansion of credit systems and the appropriation of silver from British colonies.

These developments shifted the common understanding of the relationship between money and governance. Rather than money as a tool to serve the public interest, it came to be viewed as allowing the expression of individual self-interest to work through the market to produce a collective good (Desan, 2014). It was no longer the role of the state to create value, but to protect value from political interference. This had distinct distributional consequences, notably strongly favoring creditors.

2.1. Gold fetters

The logic of fictitious commodification carried forward, on waves of British imperialism, to the nineteenth century international Gold Standard. Liberal colonial capitalism of the pre-war Gold Standard era was marked by a subordination of "the stability of incomes and employment to the stability of the currency" (Polanyi, 1985, p. 235). Domestic social interests were subordinated to international monetary stability, underwritten by colonial expansion. The globalization of this international regime was shaped by a "mutually reinforcing faith in free trade and gold... Precious metal functioned as the fetters of economic discipline. But they also worked on the political imagination by seemingly naturalizing economic relations around the scarcity of precious metal" (Eich, 2022, p. 143). In this way the apparent depoliticization of money was spread internationally via the Gold Standard.

It was within this setting that Polanyi described central banks as social protectors against the market liberalizing forces of the international monetary system. He wrote of the *domestic* monetary system as being removed from the market through "functional finance", which allowed for state directing of investment and regulation of the rate of savings (ibid., p. 252). In the paradigm of functional finance, the efficacy of state spending is judged against the achievement of specific social aims, such as full employment, wellbeing, price stability, or economic growth. The idea of functional finance stems from Abba Lerner (1943), who proposed it based upon the idea that government plays the central role in underpinning the functioning of the monetary system and the value of money (Knapp, 1924).[5] Polanyi argued that throughout the period of the Classical Gold Standard central banks were a key arm of protection against market liberalization in an ongoing double movement.

[5] Polanyi further developed an empirical analysis of these ideas in his later work, notably in *Trade and Market in Early Empires* (1957). Interestingly, the same is true of Keynes, who came to fully accept Knapp's theory in *A Treatise on Money* (1930) after extended historical research on monetary systems.

The Great Transformation is of course shaped by the historical context in which it was written. Nearly all nations put gold convertibility on hold during WWI. The monetary turmoil of the inter-war period was then marked by the reintroduction of the gold standard and the payment of reparations and foreign currency arms debts. To allow for these international dynamics to co-exist, the argument was made that domestic unemployment levels be pushed high enough to drop wages, thus making products cheaper, allowing for a trade surplus and thereby earning foreign dollars with which to make international payments (Hudson, 2020). Disembedding the money market - treating money as a commodity - meant that the market logic of supply and demand as applied to the international monetary system resulted in unemployment, insecurity, and increasing inequality on the domestic front. The protection capacity of central banks at this time was sharply curtailed for debtor nations. Reflecting on this, Polanyi wrote that "to allow the market mechanism to be the sole director of the fate of human beings and their natural environment, indeed, event of the amount and use of purchasing power, would result in the demolition of society" (ibid., p. 73).

National politics in many countries at this time came to revolve around the state of the currency. Polanyi noted "Nobody could fail to experience daily the shrinking or expanding of the financial yardstick; populations became currency-conscious" (ibid., p. 24). Churchill's re-establishment of gold convertibility in Britain at the pre-war rate in 1925 made coal exports prohibitively expensive, driving an historic general strike as mine workers resisted attempts to cut their wages in response to profit losses for mine owners (Dukore, 2022). Britain abandoned gold convertibility not long after, in 1931, empowering national policy autonomy and sovereignty that had been limited by rigid imperatives of the international monetary standard. John Maynard Keynes (1923) argued at the time that the problem of how to govern money needed to be based on a fundamental rethinking of what money was, and that nations could abandon the fetishization of gold by instead rooting monetary trust in the central bank itself. The analysis of Keynes and Polanyi ran parallel in this respect. Keynes also saw central banks as protectors against market liberalization, and his critique of the gold standard was tied to his critique of the naturalization of markets (see Polanyi-Levitt, 2006, for a deeper analysis of the relation between these two thinkers).

3. Bretton Woods as a re-embedding of domestic monetary capacity

In 1944, the same year that Polanyi published *The Great Transformation*, Friedrich Hayek published *The Road to Serfdom* and John Maynard Keynes was working to establish the Bretton

Woods system. The international monetary order established through the Bretton-Woods agreement significantly alleviated the pressures of market liberalization that had been part and parcel with the international gold standard. The Bretton-Woods system prioritized national monetary autonomy over capital mobility. A key element was the widespread use of capital controls. On the domestic front, full employment was prioritized over concerns around fiscal debt levels. Central banks were subordinated to, and supported the aims of, democratically elected governments (Levey, 2020; Monnet, 2018). Non-market coordination of the monetary system struck a balance between the interests of capital and labor, reflected through the broad range of strategies used to resolve inflationary pressures (for example, direct credit regulation and price controls) (Williams et al., 2021). The international monetary system was, to some extent, embedded back within domestic social and political contexts. In contrast to the pre-war Gold Standard period, the state-managed capitalism of the Bretton Woods era favored high consumption, high employment, and increased equality and financial stability for many within high-income nations.

The Keynesian macro-financial regime that dominated this period was one of functional finance. Fiscal policy was an active tool of governance to meet social aims (notably employment and growth). Central banks were largely agents of their finance ministries. It was common sense that political leaders should control monetary policy, as it involved judgements about the distribution of costs and benefits across society (Galbraith, 1967). Interest rates were set directly by the Treasury during this period. The Federal Reserve (Fed), for example, did not even have legal authority to set interest rates until 1951 (Federal Reserve Bank of San Francisco, 1993). Central banking was embedded within a broader democratically legitimized regime of monetary governance. The international monetary order of the Bretton Woods regime limited the market liberalizing forces of globalization, thus also limiting the need for central banks to act as protectors in this sense. A balance was struck between the international monetary system and domestic autonomy, made possible by limitations on international monetary flows.

4. Neoliberal institutionalizing of depoliticization

The breakdown of the Bretton Woods system, and with it the post-WWII Keynesian consensus, opened the door for radical ideas that would have been dismissed out of hand a decade earlier. Economic liberalization shifted from revolutionary doctrine to economic orthodoxy over the following two decades. Neoliberalism was a program of state renovation - of rebuilding government to complement a liberalized and global economy (Slobodian, 2018). State institutions and regulations were oriented toward actively supporting market expansion and the development of infrastructure for global capital. Tasks and areas key to the operation of globalized markets were "buffered from popular influence or the vagaries of political judgement" (Roberts, 2011, p. 13). States helped to establish market-based globalized finance as the necessary infrastructure of a new anti-Keynesian macroeconomic order (Aglietta, 1979; Krippner, 2005). Hayek went so far as to give up his prior acceptance of central banking and argue against any state control of money issuance whatsoever. In his book *Denationalisation of Money* he asserted that unemployment is not caused by capitalism, but by government control of money resulting in "the exclusion of the most important regulator of the market mechanism, money, from itself being regulated by market process" (1976, p. 202).

4.1. The Politics of Inflation

Coordination of the monetary system was subordinated to market logics. Fears of inflation were used to justify tight monetary policy and an institutional reform toward "independent" and "technocratic" central banking - effectively the depoliticizing of central banks and monetary policy. "Depoliticization" - a project of removing certain subjects from the realm of everyday politics - was a key part of this market liberal shift, and technocracy key to institutionalizing it (Roberts, 2011). Central banks shifted from protectors to enforcers of market logic, and monetary policy came to be viewed as a matter of economic science[6]. A result of the disembedding of central banking from its broader socio-political context was that monetary policy dominated fiscal policy, and price stability trumped full employment. Restrictions on monetary financing (the central banking purchasing of government bonds) were put into place.

The shift in central banks from "protectors" to "enforcers" is exemplified by the infamous Volcker Shock that began in 1979. The Fed, led at the time by chair Paul Volcker, tried out a new experimental policy of capping liquidity provision and letting the market determine the overnight interest rate. The Fed in fact operationalizes monetary policy by setting this interest rate; all this experiment was attempting to do was "to avoid taking direct responsibility for the social harms associated with high interest rates" and thus to hide the actions of the Fed "behind the veil of market forces" (Grey, 2019). Now acting as an enforcer of market expansion, Volcker and others at the Fed argued that inflation was driven by workers' living standards being too high and could only be corrected by breaking the power of organized labor, and thus their ability to bargain for higher wages. The domestic effect of the

[6] The reliance on the Phillip's Curve and NAIRU to determine an 'optimal' or 'natural' rate of unemployment is a key example.

Fed's drastic and sustained rise interest rate hikes was to gut farming and manufacturing, drive unemployment rates sky high, and generate sweeping bankruptcies. On the international scale this policy choice forced debt crises in much of Latin America (Roos, 2019), while driving financial capital inflows to the "safe haven" of the US Dollar.

The decision of the Fed to sacrifice domestic wellbeing and growth to staunch inflation was motivated in large part by the global financial architecture. Financial markets viewed loose monetary policy as a threat - both due to the negative consequences of inflation for financial assets, and to a general aversion of capital toward strong labor markets. Thus, financial actors threatened exit (capital flight) if domestic governments employed loose monetary policy. As international financial markets outside of the US were liberalized, central bank independence became a way to assure investors about a country's commitment to price stability. The effect of this was that central bank independence was combined with a loss of policy autonomy at the hands of private finance. Ben Bernanke, former Fed Chair, later touted Volcker as doing what was "politically unpopular but economically necessary." This rhetorical logic sidesteps political responsibility. Volcker's opposition to direct credit regulation, an effective tool for fighting inflation in previous decades, was a purely ideological opposition (Eich, 2019). "Depoliticization" of the monetary system, whether directly through the currency or via monetary policy, is necessarily a political project.

4.1. Sound finance

In tracing the evolution of the "depoliticization" of the monetary system, it is useful to contrast the ideas of *functional* finance and *sound* finance. These ideas reflect, and go hand-in-hand with, shifting economic, political, and popular understandings of money. The modus operandi of central banking that Polanyi refers to as functional finance stands in sharp contrast to the logic of sound finance that came to dominate central banking (as well as economics and popular opinion) following the collapse of the Bretton-Woods monetary order. Sound finance reflects the commodity logic of money and is a product of the ideological shift toward monetarism that began in the 1950s, having grown out of Locke's sound money doctrine. In sound finance the state’s use of money as a governance tool is judged solely based upon the level of debt accrued. Balanced budgets are seen as a normative aim in and of themselves. This is underpinned by the idea that removing political interference from the monetary system will allow for the market to act naturally upon money-as-commodity, thus ensuring monetary stability and allowing for further expansion of the market system. Volcker specifically drew on the logic of sound finance to justify his choices while head of the Fed.[7] The idea that money creation should be kept out of the hands of the government links directly to the Neoliberal turn of Thatcher and Reaganite politics. Inspired by Friedman and Hayek in their belief that only markets, not elected governments, can ensure citizens' welfare, Thatcher and Reagan both pushed to deregulate domestic and international financial markets, further disembedding monetary systems from their socio-political context. This ideology dominated academic, political, and popular thought in the following decades, and central banks came to be deeply embedded in market structures that regulate their behavior (Roberts, 2011).

5. Central banks as economic crisis fighters

The economic and financial crises of the twenty-first century mark a further shift in monetary governance and the role of central banks. Due to decades of neutered fiscal capacity, the Global Financial Crisis of 2007-2008 marked a turning point in which central banks began to act as

"first responders" in times of economic crisis. The virtues of sound finance - fiscal discipline and tight monetary policy - were quickly eschewed in the name of bailing out banks and stabilizing financial markets. When asked why the US Federal Reserve had not intervened earlier to burst the housing mortgage bubble, Governor Laurence Meyer explained that "policies aimed deliberately at the destruction of wealth would put the bank in a politically untenable position" (Roberts, 2011, p. 42). This justification for inaction sidesteps the fact that all monetary policy has redistributive consequences and is political in nature. Despite this initial hesitancy, the Fed reacted at an unprecedented scale once the crisis began to unravel (Tooze, 2018). The growing role for central banks in recent decades has meant that they have been accused of "redistributive Keynesianism in monetary disguise" (Tooze, 2020, p. 12) - meaning they are intentionally acting politically, under the cover of a technical mandate. In other words, using the cover of *monetary* policy to conduct *economic* policy.[8]

For nations throughout the world, across all income ranges, responses to the COVID pandemic have put deep cracks in the pretense that central banking is a technical, rather than a political, practice. Central banks are now arguably the most important economic policymaking agencies (Tooze, 2020). Monetary policy interventions have qualitatively and quantitatively changed, and their distributional consequences are now openly discussed. Taboos of monetary financing and credit guidance have been broken (Gabor, 2021). The veil of technocratic expertise has been lifted (to some extent) as well. This

[7] His 2018 memoir, in fact, was called 'Keeping At It: The Quest for Sound Money and Good Governance'

[8] This was the specific accusation levied against the European Central Bank by the German Constitutional Court in May of 2020.

is exemplified by the fact that, in the present period of post-Covid price increases, central bankers acknowledge that they have no working theory of inflation (Tarullo, 2017).

5.1. Protectors or enforcers in the double movement?

Discourse around functional finance and the key role of fiscal policy have re-emerged. One might ask if this marks a movement of central banks back toward their original role as "protectors" of labor and social rights in the face of international monetary pressures. Answering this question requires a deeper dive into the distributional consequences of this mode of central banking, and the power relations that underpin it. In this new era of super-charged monetary policy, central bank balance sheets are used to shape and stabilize financial markets, guaranteeing collateral liquidity and backstopping the value of entire asset classes (Borio, 2018). The operations of unconventional central banking now "stabilize a financial system increasingly prone to liquidity shocks by mobilizing public resources in the service of private financial accumulation" (Musthaq, 2021, p. 3).

We have come back to functional finance but embedded now within a logic of market liberalization. Both monetary financing and corporate asset purchases (undertaken at unprecedented levels through recent quantitative easing programs) operate to maintain the now implicit goal of financial stability, rather than to support social aims of government. Financial markets are increasingly an "organ of economic self-regulation" (Polanyi, 1985 [1944], p. 252). Whereas in the Bretton Woods regime the interests of capital were closely aligned with tight monetary policy, the interests of the financial sector now instead align with loose monetary policy marked by aggressive asset purchases. While monetary financing does certainly benefit governments, it is done to backstop financial markets and to maintain the transmission channels of monetary policy, rather than to support government spending (Gabor, 2021). Amidst large scale quantitative easing, the artificial scarcity of money is maintained for large portions of the population - namely economically and socially marginalized populations. Understood in this way, central banks are very much still enforcers of market expansion in the double movement. The risks brought on by liberalization culminated in crisis, which was responded to by a deeper, albeit different form of, market liberalization.

6. A RE-POLITICIZED MONETARY GOVERNANCE

The logic of money as a fictitious commodity was extended past any actual currency commodity peg via the ideas of sound money and sound finance that underpinned the Neoliberal disembedding of economy from society. As a result, "the link between commodity money and token money has by no means been severed" (Polanyi, 1985 [1944], p. 252), allowing for an apparent depoliticization of monetary policy through the turn of the twenty-first century. While the link between commodity and token money may be less tenable now than in the past, central banks have largely maintained their position in the double movement as enforcers of market liberalization, in sharp contrast to the role they played in the early twentieth century.

Circulating the IOUs (debt obligations) of private creditors as public currency via the Bank of England, and Locke's argument for fixing money to metal in the late seventeenth century, were just as much political projects as Volcker's monetary policy shock. Attempts to "depoliticize" money are really attempts to "de-democratize" money - to disembed it from its social context. The commodity logic of money is, at its core, a politics of monetary depoliticization.

Power, trust, and politics will always be a part of money and its governance. In this way, Polanyi's argument of money as a fictitious-commodity points to the deeply socio-political nature of money. Polanyi describes the double movement as an ongoing struggle between disembedding forces of the market and re-embedding forces of social protection. The protective pole of the double movement is aimed toward (re-)establishing public regulation and control of land, labor, and money. Polanyi describes this as "the tendency inherent in an industrial civilization to transcend the self-regulating market by consciously subordinating it to a democratic society" (1945, p.234). If there is a new protectionist movement underfoot regarding the monetary system, one must ask who the actors are. Hudson (2020) writes ... "All forms of society have managed markets. The key is who manages them, above all in the sphere of credit relations and the balance between government authority and private wealth... Polanyi's contribution to social history demonstrates the need to regulate finance, land and labor markets in an overall social context in order to maintain prosperity instead of impoverishment." Central banks, while increasingly acknowledged as political actors, still remain largely outside of any form of democratic accountability (van 't Klooster, 2021). A shift in popular, political, and economic understanding toward functional finance, driven by ongoing crises, could serve as an in-road to explicitly re-politicize and democratize the monetary system more broadly.

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