Paul, Axel T.

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**MONEY AND CRISES. A REVIEW**

By
Axel T. Paul
Albert-Ludwigs-Universität Freiburg
paulaxel@uni-freiburg.de

I.

One need not go as far as Polanyi (1977) and hold the unrestrained market economy to be at fault for the two world wars, but there can be no doubt that economic crises have had a decisive influence on the history of the 20th century; that they have led to social setbacks and mass suffering even when they did not result in political or military catastrophes. Politics today is more than ever confronted with the task of taming the impact and dynamics of a globalized economy and direct them into channels in which it could be of benefit to society. Economic crises, it goes without saying, have not been convulsing society only since the 20th century or even since the beginning of the modern age, but run through the entire history of mankind. What distinguishes the economic crises of our times from all earlier ones, however, is their ‘homemade’ character, so to speak: not injuries caused by natural events, but problems in the economic system itself are responsible for the breakdown or slackening of trade and production and the concomitant poverty, unemployment and hunger.

While economics was in its infancy, physiocrats up to and including Marx were concerned with answering questions regarding this new and sensational growth of wealth (Dumont 1977), whereas economists in the 20th century see themselves confronted with the problem of understanding how it is possible that economic activity can come to a standstill, that the entire world economy can be plunged into a crisis, even though mines and factories are still standing, trains and fleets are still available and stores are in many cases still abundant (Keynes 1973a). More precisely, the economic crises of the 20th century are questioning the non-monetary models of economics. In turn, money, credit and finance are becoming, or at least should become, the focus of attention.

II.

Economic sociology has not kept up with this development or turnaround—despite its undeniable and ongoing efforts at explaining the relation between economy and society. Now as ever, it concentrates on questions of cultural conditions, social consequences and structural limits of economic behavior, rather than on those concerning the mechanisms of the economic system itself (Smelser/Swedberg 1994; Beckert 1997). The same applies to institutional economics, whose history and methods bring it close to sociology (Williamson 1990; Richter/Furubotn 1999). Institutional economics mainly studies the underlying legal and political conditions or the functional imperatives of the economy, which are difficult, if not
impossible to incorporate in a theory of action. Consequently, many studies in economic sociology and institutional economics show that economic activity does not take place in a vacuum and why this is so; indeed, that it cannot be otherwise. It is important to continue with such studies. However, recent developments, such as the ever lasting crisis in Japan or the debacle of the Asian Tigers give rise to the question as to whether conventional interpretations—in this case, of the ‘Asian Miracle’ (Fallows 1995)—do not fall short of the mark and whether sociology would thus do well to put more effort than hitherto into explaining economic processes proper. It seems sensible to put culture and politics aside for a while and look for economic or, as the Asian example suggests, more painstakingly, for the financial reasons behind crises.

Monetary or financial crises, i.e., inflation, deflation, disequilibrium in the balance of payments, mountains of debt or too much pressure of capital evidently have consequences for the non-monetary economy. Not only the Asian crisis, flanked by events in Russia and Brazil, but also the inflation of the Reichsmark during the 1920’s, the Great Depression, the post-1945 financial policy of the USA or the debt crisis of the 1980’s yield good examples of the power of financial markets to aggravate or even set off crises. The responsible factors, whether they be inherent necessities, real or imaginary, lack of information, political interests or inadequate understanding of economic theory, are still, however, a matter of dispute. Although it is true that the competing explanations of these crises are not necessarily mutually exclusive, it is also clear that the great majority of them identify external factors as triggers or catalysts for the respective problem.

Surprisingly, Keynesians and monetarists agree that economic policy causes disasters like the ones above—the first group attributes it to too little state intervention while the second sees it caused by too much (see, e.g., the interpretations of the Great Depression in Friedman/Schwarz 1963 and Temin 1976). And the straggling remains of Marxist economic theorists diagnose a further accumulation crisis based on some variation of the notion that rates of profit tend to decline (Kurz 1991). Common to all of them is the attempt to explain these crises not based on structural characteristics of money markets, but by referring to underlying political conditions, or at least imbalances in the non-monetary economy. The deeper reason for this attribution is found in the theorists’ belief in the neutrality of money. If money is considered to be merely a veil over trade in goods and services, then restrictions on competition, lack of information, and most certainly a faulty control of the money supply, can all be responsible for economic crises, not, however, money itself as a special object of desire. Mainstream economists as well as mainstream sociologists—insofar as both of them deal with money at all—have mainly either failed to perceive or to elaborate theoretically the contradictions between the various functions of money (Aglietta/Orléan 1984).

Although there is no doubt that every modern economy requires a means of exchange which has a stable value—and even monetarism admits that policy is necessary to provide this stability—only a few have considered the option that a characteristic uncertainty which makes both profits and crises possible could be inherent in money itself (Schumpeter 1964; 1971), even when the money supply is kept constant or adapted to growth. Although numerous attempts have been made to account for the economic function of speculation (for an overview see Aschinger 1995), until recently no one has seriously taken up and pursued the idea to the end that a monetary economy could well stimulate and even require a kind of gambling instinct. So far, speculation has rarely been brought into connection with the
characteristics of money itself. I shall argue here that a theory of speculation should stand at the core of a macrosociological theory of the economy.

It is obvious that a theory of the monetary economy that is especially interested in crises of financial markets and speculation need not start from scratch. Instead, it can and should take account of a rich research tradition. After all, it had long been questioned whether money should be considered neutral or not.

It is remarkable that theories of money almost always appear in the form of a criticism of money (Weber 1979). Aristotle was the first to analyze the power of money to stimulate greed and undermine reciprocity and redistribution (Finley 1970). Presumably, this criticism, like all criticisms of money, takes its sustenance from the ethics of the gift (Parry/Bloch 1989). The same opposition marks the economic ethics of the early Jews (Sombart 1911; Weber 1988), the ecclesiastical prohibition of usury (Le Goff 1988; Heil 1997) and the money criticism of the Romantics (Achermann 1997). Apparently, money is something that, when it comes into being and takes effect, poses a threat to existing structures or forms of socialization and that, if it cannot be eliminated from the world, needs to be apprehended intellectually at least.

Marx’s work (1974; 1982a) provides some of the earliest evidence of this contradiction: on the one hand, he is interested in abolishing or overcoming ‘diabolical’ money, while on the other hand being one of the first to analyze money in terms of its functions for the economic system. Although he shows that money—being accompanied by a new form of socialization—is more than a mere economic tool, he squanders this insight when he starts analyzing economic processes. Perhaps precociously, Marx also concentrates his analysis of money on its instrumental character, thus overlooking the central importance of banking and financial markets for the dynamics of capitalism. These factors are considered by Marx (1982b), as well as later by Lenin (1982) and Hilferding (1947), to be no more than parasitic superstructures.

Even though Marx, like the entire generation of classical economic and sociological thinkers, acknowledged that money is as much a social ‘fact’ as it is a means to economic ends he still accepted the then impending split between an economics which subscribes to instrumentally rational behavior and synchronous studies, and a diachronically oriented sociology dealing with more or less irrational ‘derivations and residues’. It is this segregation and institutionalization of the two disciplines that has led the majority of sociologists—with the notable exception of Simmel (1989)—to ignore the topic of money until quite recently. Sociologists left the subject of money to economists or did not take up questions related to its social prerequisites and consequences. For this reason, the insights into the ambivalence of money that Marx had gained but failed to incorporate into economic theory, were lost.

III.

Neoclassical economics reduces money to its function as a medium of exchange. Moreover, it ignores money’s political aspects due to its opposition to Marxism, whether concealed or conspicuous (Clarke 1981). Money is considered to be an ‘invention’, a spontaneous product of the market, which primarily facilitates trade. A structural contradiction between the various functions of money is absent from the theory. This conception of money corresponds to the
utilitarian fiction of the homo oeconomicus: this is a thoroughly greedy trader who exclusively pursues his own advantage, but who nonetheless is capable of cool calculation and of putting his desires into a hierarchical order. He must be able to calculate, as the fundamental work of Walras (1926) and Pareto (1909) shows, but nevertheless economic activity is conceived by neoclassical economists as taking place without money. In principle, nothing has changed in this connection up to the present.

In contrast to his neoclassical predecessors, Keynes considers money to be anything but neutral (Keynes 1973b, 1973c). In his view, money is the asset with the greatest usefulness on the one hand, and with the lowest maintenance costs on the other. Consequently, money tends to be preferred over other assets; Keynes uses the term ‘liquidity premium’ to describe this situation. Now, the liquidity premium, or the need of the holder of money for security, is the hollow die of interest, which thus must be considered not as a quasi-natural but as a monetary phenomenon. Insofar as the interest rate provides a measure of the profit expectations of capital owners and is subsequently not calculated from work already performed, it determines investment and saving behavior. Together with and following Keynes, a monetary interpretation of economic crises becomes possible for the first time. In contrast to the criticisms of—presumed or genuine—Keynesian demand-side policies, deaf ears have been turned to monetary Keynesianism (for an overview see Cottrell 1994). This is less the result of its theoretical weakness than of the circumstance that Keynes, strictly speaking, breaks with the mechanistic paradigms of neoclassical economics and their orientation toward states of equilibrium and predictable trends (Attali 1981).

An important advance in monetary or unfortunately so-called ‘fundamental’ Keynesianism is the property theory of Heinsohn and Steiger (1996).¹ For one thing, they take exception to the fact that Keynes did not understand the connection between money and property, and do indeed provide clarification in this respect. They consider the real reason behind money and interest to lie in the fact that the legal title represented by property ownership can be encumbered and pledged. According to them, credit is the central mechanism of the economy. Not until monetary credit has compelled a nominal increase in value can the actual production of surplus value and trade in goods get under way. Indeed, property theory is more capable than other theories of making normal, i.e., already established and—assuming the value of money remains stable and expectations of profits constant—largely crisis-free economic activity intelligible. On the other hand, however, it still underestimates the inclination to crises perceived by Keynes in all monetary economies. For Heinsohn and Steiger, this is the automatic result, in a manner of speaking, of a sound monetary policy, i.e., the result of ‘undervaluing’ the assets covering loans (Heinsohn/Steiger 1999). Now although they register the fact that this (under-) valuation is in turn a function of future expectations, they do not give it any further discussion. In other words, their theory of crisis remains blind to the ‘psychology’ of money.

A second remarkable attempt to renew and elaborate the Keynesian paradigm is Binswanger’s book (1999) on the economic function of financial markets. He also subscribes to the idea that capitalist or money economies need to grow to survive and distinguishes three obstacles for growth: the real, the demand and the financial constraint. Whereas neoclassical economics

¹ Property theory is not be confused with property rights theory. I use the former term only to denote the specific approach to explaining the genesis of money and interest as proposed by Heinsohn and Steiger.
concentrate on the first, play down the importance of the second, and know nothing about the third, ‘orthodox’ Keynesians dwell on the second, ‘fundamentalists’ stress the third, while both of them underrate the cyclical scarcity (or abundance) of investment opportunities. Especially, fundamentalists on the one hand perfectly see the necessity to relax the financial constraint, i.e., the availability of credit to stimulate growth, but on the other hand they remain at best ambiguous about the speculative self-organization of financial markets (Davidson 1994). ‘Money unbound’ moving speculatively within seconds from one place to another is considered not only to distort macroeconomic stability but also to prevent presumably profitable investments in the real sector (Eatwell/Taylor 2000). Binswanger completely agrees that liberalized financial markets tend to create and inflate speculative bubbles that do not correspond to technological improvements and/or an increase of profit expectations in the productive and distributive parts of the economy. But he dares to ask the (for Keynesians of all sorts heretical) question why speculative profits should not be preferred to no profits at all. He argues that we are facing and passing through a new ‘industrial’, i.e., communication technology-driven revolution which forces a fraction of hitherto profitable corporations to downsize or even exit the market. Under this condition a robust speculative bubble, at least in form of soaring equity values, might help to restructure the economy, temper inflationary pressures, and sustain consumer confidence and demand. Even if Binswanger’s argument will probably need further empirical support, he convincingly shows that trust in the stability of the financial system is a key variable not only in stimulating growth but also in deflating bubbles smoothly instead of letting them burst.

IV.

To (the history of) sociology applies the same as to economics: namely, that the ambivalence of money has been neglected or forgotten when discovered and only gradually been brought back into account. Both Weber (1980) and Simmel (1989) discuss the rationality of money. The former is more interested in the foundations of the monetary economy laid in religion and social structures, the latter more in the social-psychological and cultural consequences of the same (Turner 1991). Weber, however, did not propose a theory of money. Simmel’s work, on the other hand, suffers from the fact that it rather hides than outlines a theory of money. Haesler (1995) and Deutschmann (1999) represent two promising attempts at systematizing Simmel. I will return to them shortly. Simmel, however, had no direct students who would have continued his approach to monetary theory. All in all, money largely disappears from sociology at the beginning of the 20th century.

Parsons was the first to put money back on the agenda in the 1950’s with his theory of symbolically generalized media of exchange (Parsons 1980). It has become common practice to accuse Parsons of ‘monetarizing’ language (Künzler 1986). This accusation, as justified as it may be, appears to miss the heart of the matter, however, since Parsons, following neoclassical economic theory, considered money a harmless means of exchange (Parsons/Smelser 1956). The AGIL scheme introduced by Parsons for reasons of analysis made it necessary to grasp the exchange processes between and within systems with the aid of a media theory. In this context, media are special languages tailored to solving particular problems. Money is needed on the one hand for the processes of exchange between the
economic and other subsystems of society, on the other hand money is needed for the control of the economic system itself. In both cases, Parsons reduces money to its function as a means of exchange. Habermas (1981) agrees with Parsons, at least as far as the control function of the medium of money for the economic system itself is concerned. His contribution to media theory consists first of having pointed out the necessity of anchoring of media of whatever kind in the Lebenswelt, which is entirely fitting. Second, Habermas surpassed Parsons in conceptualizing differentiated media, which are in the end relegated to the discursive redemption of claims to recognition and others which must be ‘justified’ with respect to their function alone. Thus Habermas corrects the ‘monetarization’ of language which Parsons had tacitly put into his theory, while failing to revise the theory’s reduction of money to exchange purposes. The dynamics of money remain hidden to him.

This does not apply to Luhmann (1988). He does not wait to introduce money until the economy has disengaged from the rest of society. In contrast, Luhmann sees the evolution of money, however accidentally this may come to pass, as providing the opportunity for the economic system to become so disengaged. For Luhmann, media serve the function of an evolutionary pacemaker. With regard to economics, this means that it is the ability to quantify scarcity, which is only possible with the aid of money, which makes it possible to ‘cultivate’ this scarcity. Differing from Parsons and Habermas, Luhmann recognizes that the economic system must reproduce scarcity by means of money in order to keep itself alive, but in doing so is also able to fulfil its true function, which is not to satisfy needs, but to gain time. Luhmann does not see, or at any rate underestimates, the compulsion of the monetary economy to grow and the imaginary dimension of money. It is furthermore questionable whether and to what extent the economy of differentiated societies does not in fact ‘take the lead’ while conversely remaining dependent on specific forms of integration. Nonetheless, systems theory à la Luhmann affords a sketch whose scope and coherence can definitely stand comparison with property theory.

In recent years, other streams of sociology have also been rediscovering the topic of money (Baker/Jimerson 1992; Mizruchi/Stearns 1994), although there is as yet no common approach or uniform paradigm to speak of. Dodd (1994), for instance, in his rich sociology of money rather pleads for analytic acumen than theoretical stringency. Indeed, he manages to describe quite accurately isolated phenomena associated in some way with money. The advantage of this approach must remain somewhat obscure, however, as long as these phenomena cannot be placed in a larger perspective. Likewise, Zelizer (1994) and Baker (1987) both abstain from writing a unifying theory of money; and they also explain why: Zelizer takes a microsociological view to demonstrate that the essence of money lies in how it happens to be used. Accordingly, she speaks of ‘multiple monies’. A similar conclusion is reached by Baker, although from a macrosociological perspective: what constitutes money depends on its being convertible into other assets; which sort of money is closer to true money must therefore be answered empirically.

In terms of abstract theorizing, Deutschmann (1999) is much more advanced, since his ambitions aim at a general sociology of money. Following Simmel’s idea of the ‘superadditum of wealth’, a kind of symbolic surplus value which money first allows to be defined (and conceptually close to Keynes’s liquidity premium), he interprets capitalism as being in its core a religious undertaking. The apotheosis of capital takes the place of the search for God. The factors responsible for this development are not so much economic
constraints as rather the pursuit of that so coveted superadditum that is expected to do away with all insecurity. In addition, Deutschmann attempts to make both scientific-technological progress as well as the cyclical crises of capitalism plausible through a theory of imagination. Wishes must be conceived in concrete terms before they can be a genuine guide of action. Yet, at the same time, every wish-come-true necessarily misses all that would otherwise have been possible. Nonetheless, as successfully as he manages to revise the popular treatment of money as a mere means of exchange, he still has a tendency to underestimate the structural compulsion of the monetary economy to grow. Deutschmann’s ambitious conception shows, however, that a theory of money that does justice to the multifaceted nature of its subject is perfectly within the realm of possibility.

A second coherent update of Simmel’s Philosophy of Money is Haesler’s book on the fate of interaction in an age of electronic money (1995). In an earlier work on the concept of interaction and its scope (1983) Haesler had defined and defended this Simmelian notion against the dominant and simplified idea of human action as exchange (Blau 1964) but also against the structuralists’ reification of reciprocity. Whereas the rational choice theorist wrongly depicts human action as being always consciously selected, purposeful, and benefit-seeking, structuralism misinterprets the patterns of human behavior as being governed by an anonymous principle of reciprocation (Lévi-Strauss 1989). In Granovetter’s (1985) terms, action and behavior are conceived either as under- or as oversocialized. In contrast, Haesler, drawing on Simmel and Mauss (1989), proposes to base sociological theory on the concept of interaction as a kind of supererogative performance, which creates and reinforces its multiple motives only through the recognition or acceptance of another human being. Now, in his book on money, Haesler covers and confirms Simmel’s observation of the civilizing power of money, according to which money transforms potentially violent conflicts up to a certain point into economic compromise. However, he points out that full-blown money, especially its postmodern ‘insubstantial’ electronic forms, tend not just to veil but actually to destroy the symmetry of interaction. In other words, the ongoing monetarization of social relations, exemplified by the widespread and still proliferating use of cards of any kind, is about to radically change the nature of society itself. Even if one wants to abstain from such far reaching conclusions or just from turning sociological analysis into social critique; even if one does not consider the substitution of electronic cash for ‘material’ money a great divide and does not share Haesler’s pessimistic views of money’s corrupting effects, there is no doubt that his social philosophy of monetary forms of interaction belongs to a type of ever rarer studies that combine theoretical versality, precise observation and speculative thought in a challenging manner.

V.

Generally speaking, the task is now to formulate a theory of money that on the one hand is abstract and complex enough to integrate what has been achieved so far, but on the other hand is kept sufficiently concrete to account for the specific forms that money has taken in different social settings. It is important to formalize the concept of money without confounding it, once again, with a tool for exchange, but also without blurring its specificity against other media of communication such as power, love, or truth. One promising approach in this context could be
the attempt to integrate property theory into systems theory, or, conversely, to reshape systems theory in terms of property theory. Notwithstanding its claim to universal validity, systems theory is implicitly oriented, or at least amenable, toward problems related to economic and monetary theory. Property theory, however, is obviously lacking concepts and terms that would allow it to deal with the significance of the economy and with its function in relation to other subsystems of society.

Accordingly, it will be necessary to raise the old question anew, why there is and what explains the weight or even the dominance of the economic system and how it is linked or integrated into society. The answer proposed by systems theory, that the differentiation of the subsystems and their orientation toward single functions make problems of legitimation superfluous, seems inadequate. It will hardly suffice, however, to play ‘ethics’ off against economics in an abstract manner. Approaches at clarifying the conception of today’s economy and society would appear more promising if they attempted to deal with the problem of ‘integration’ historically and tried to discover concrete mechanisms and forms of mediation between the two (Zukin/DiMaggio 1990). Abolafia (1996) in his outstanding ethnography of Wall Street has already demonstrated that integration is a necessary factor even for the financial markets and how it is socially constructed in an interplay between individual actors, their latent professional traditions and standards, and the legal and institutional setting.

The true deficiency of theories of money so far, however, is less to be found in the fact that the relation between economy and society is still unclear, but instead that money is considered to be an innocent medium that can never be the cause of economic instability or crises. The challenge thus consists in sketching a theory of money, which, by placing the dialectics of money—to represent but also to be value—at the center of its analyses. This would allow explaining economic crises more coherently and comprehensively than proposals which base their arguments on the ‘real’ economy. The 20th-century giants of monetary theory, Simmel and Keynes, but also their followers and interpreters like Shackle (1992), Luhmann, Deutschmann and Haesler, all define money as a social relation that appears as a constantly vanishing object, as substantialized and substantializing desire that eschews all but purely quantitative designations, or, borrowing a Luhmannian term, as ‘determined indeterminacy’. A theory of money of this kind would thus also have to comprise a theory of speculation.

VI.

Speculative behavior is, of course, also possible on foundations other than those provided by the monetary economy. Accordingly, it has to be examined what speculation means in itself, as well as how money encourages speculative behavior and perhaps also changes its very nature.

Since a few years, financial markets or, more generally, finance has become an object of sociological investigation (Adler/Adler 1984; Cardon et al. 2000; Godechot 2001; for an overview see MacKenzie 2001). Yet, with the notable exception of Orléan (1999), the bulk of these studies of finance concentrate on how financial markets actually work, on who the actors are behind the markets’ anonymous and mysterious moves, on how speculation is done and on how bubbles are enacted. What is still missing despite this recent awakening of
sociologists to the study of finance, is a macrosociological theory of speculation that tries to link the recurrence of ‘manias, panics, and crashes’ (Kindleberger 1996) to the characteristics, or the dialectics, of money itself.

It remains to be examined whether the microsociological insights that have been achieved so far can be reconciled with a liquidity theory of money that has already been outlined in the works of Simmel, Keynes, and others. If the theoretical program sketched here holds up, then we should have at our disposal the instruments necessary to unravel the dynamics and crises of financial markets without resorting to external or presumably more fundamental factors than just monetary factors.

If it became apparent that money (and not exchange) was the central category of modern economics and also and foremost that speculation was more than a tangential part of the monetary economy, then it would no longer be justified to speak of financial markets as disengaging from the rest of society. By the same token, the distinction between ‘casino’ or ‘turbo capitalism’ (Strange 1986; Luttwak 1999) and the true, original, or proper variety (Guttmann 1996; Huffschmid 1999) would become obsolete. This is why the assertion that the development of the financial markets in the past twenty years has pulled certain national economies (which, strictly speaking, have long disappeared, if indeed they ever existed) into the abyss and adversely affected the stability of the world economy, is as legitimate as it is imprecise. The real question is rather under what circumstances the instability so essential to the monetary economy turns into an instability of the monetary economy itself.

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