



The nature of central banking

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Abstract:

In this article we argue that we can more easily understand the duality of central banks (CBs) and independent central banks (ICBs) through an understanding of their underlying dualities. As we explore, heterodox and orthodox views and methodologies present two distinct ways of conceptualizing all that is involved in economic activity, and correspond to a social interpretation and a market interpretation of economics. This clear dividing line can be traced between visions of individuals, society, money and banking, and indeed central banking and independent central banking. As we will show, CBs and ICBs have well recognized – but poorly classified – distinctions that allow for a clear separation between their natures. Once revealed as quite distinct institutions, the public policy decision of maintaining independent central banks more fully aligns with the disastrous history of such institutions on the well being of national economies.

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How to cite this article:

Marshall W.C., Rochon L.-P., Vidal G. (2025), “The nature of central banking”, *PSL Quarterly Review*, 78 (315), pp. 364-391.

DOI: <https://doi.org/10.13133/2037-3643/19244>

JEL codes:

E58, B0, H44

Keywords:

central banking, history of thought, economic governance

Journal homepage:

https://rosa.uniroma1.it/rosa04/psl_quarterly_review

Money is like manure. It's not worth a thing unless it is spread around encouraging young things to grow

(Hello Dolly, 1969)

Much has been written on central banks and their independence. The majority of studies focus on what central banks did or do, how well that have done, and what they should or should not do. Fewer focus on why they do what they do, and indeed, *why is it* tends to be a more difficult question to answer than *what is it*. When considering central banks, both questions become essential, as we have examined in various articles (Marshall and Rochon, 2022, 2025; Vidal and Marshall, 2023). While there is no consensus answer on the more simple question of *what* the central bank is, few even pose the more difficult one of *why* the central bank is. However, as we argue, if there is to be well-informed public policy debate regarding fundamental political

* The authors are grateful for the very helpful comments of two anonymous referees.

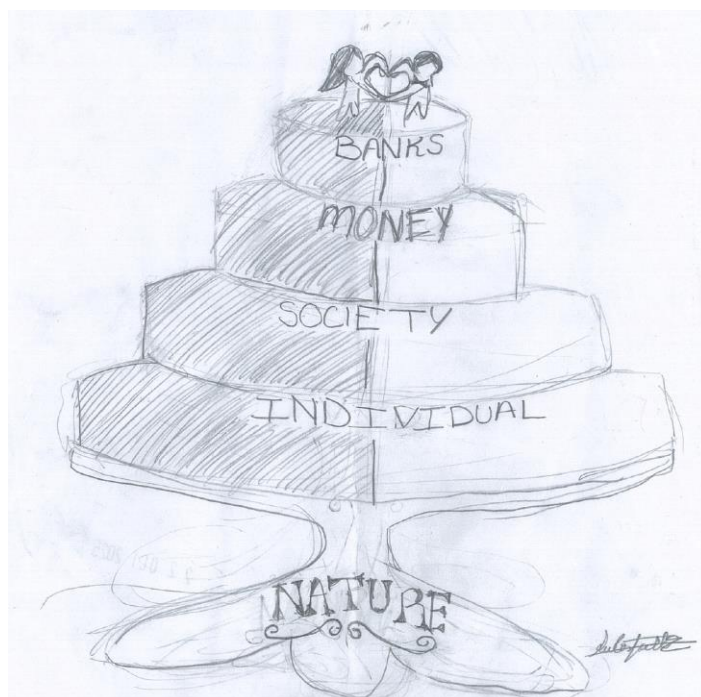


questions such as whether central banks should be independent, such institutional identification becomes essential, and can only be fully achieved through asking both *what it is* and *why it is*.

The dearth of debate regarding central bank independence reflects the state of affairs of economics as a social science. When dealing with humanity, money, and banking, today's orthodox thinking presents each as having a nature that is more or less knowable, and also excludes the opposing heterodox thinking that ascribes a more knowable, and completely opposite nature to such things. In this article, we argue that a clear understanding of both positions allows us to better understand both the central bank (CB) and the independent central bank (ICB); that both of these institutions also have their own distinct natures; and that their correct identification brings us much closer to answering both the *what* and the *why* of each.

Arriving at this conclusion requires a bit of a different approach than we have taken in previous research, although we are certainly building upon it. Here we focus much less on central banks as institutions, and much more on how the institutions have been perceived and conceived in the world of ideas. The article's organization is straightforward, but there are two elements that make it a bit different. One is that we have a visual aid to summarize and guide the article. Figure 1 introduces the visual metaphor of a wedding cake. Our ultimate object of study – the ICB – is the ornament on top, and beneath it are four layers of cake, divided in a black and white half. Following our metaphor, the white half is the only one visible to most observers, but as we demonstrate, many scholars over the centuries have analyzed the black half. Our presentation begins with the different ideologies and their respective methodologies, and then proceeds, from bottom up, to situate the market and social interpretations of the nature of humans, the nature of money, the nature of banking, and the nature of central banking. We close with several considerations regarding the historical implications of the return of the ICB.

Figure 1 – *The wedding cake*



Source: Suri Constanza Martínez de la Torre.

1. The methodologies of heterodox and orthodox economics

[...] every generation regards as natural the institutions to which it is accustomed. Mankind, it seems, is more easily shocked by the unusual than by the shocking

(Tawney, 1931, p. 91)

The conclusion of this article is that the decision to adopt and maintain ICBs is shockingly bad public policy. It is therefore a great victory of today's orthodox school of economic thought that so many are accustomed, so few are shocked, and even fewer can find the essence of what could be considered shocking about ICBs. Today's orthodox thinking is correctly identified as neoliberalism (Mirowski and Plehwe, 2009) and finds a very clear lineage from the orthodox thinking of the past. For George Orwell, "Orthodoxy means not thinking--not needing to think. Orthodoxy is unconsciousness" (Orwell, 1949, p. 30). Other authors have employed terms like received wisdom and conventional wisdom to describe the passive ingestion of knowledge. But there is no demand without supply. Orthodoxy is a living social force that is charged with cultivating the ideas of society: "At any given moment there is an orthodoxy, a body of ideas of which it is assumed that all right-thinking people will accept without question" (Orwell, 1972).

What is shocking about the ICB is that it is explicitly anti-democratic, by nature socially polarizing, and by design and practice, highly prone to catastrophic economic collapse. What is therefore also shocking is the lack of debate regarding the existence of such an institution, as they have in fact existed before, and have produced said results and more. Yet in the last 50 years of economic debate, both the history and the nature of the ICB have been largely left aside, with focus mostly falling on inflation and macroeconomic results. This is not new either:

Such a treatment of the subject has only one defect; it is quite remote from reality. Its demonstrations are not, as its less cautious practitioners are in the habit of proclaiming, the voice of science, but a rhetorical device masquerading under a guise of scientific precision. Its dialectical victories are won with ease, for they are won over shadows (Tawney, 1931, p. 128).

Orthodox thinking has for centuries employed methods and "demonstrations" that have drawn the ire centuries of heterodox thinkers. However, dialectical opponents have not only remained in the shadow at the hands of orthodox thinking, for while the orthodoxy has been able to maintain a relatively coherent intellectual front, the heterodox position has never aimed to create or maintain a singular conceptual construction of the economy. Indeed, even determining what are the shadows and what is the light, and what the dividing line is between the two – has rarely been recognized as an important task. In this article, we depend upon two authors that are exceptional in this regard – Tawney and Polanyi.

Tawney (1920) offers important historical context to the evolution of what western societies have thought of as natural and how such a change in ideas has brought about – or at least accompanied – the rise of capitalism. In the days of Martin Luther, God was almost uniformly believed to be the creator of all that was natural. The Catholic church was by then losing ground as an economic authority in practice, but in theory, any question of *why* ultimately found its answer with God's will. Heterodox authors have either maintained God on his throne, removed him from the equation with no consequence – nature is simply nature – or replaced him with society; or most often, they have not given much thought to the role of nature, or have simply muddled diverse positions, often allowing notions of market determinacy to enter into the mix.

Polanyi is resolute in his belief in social determinacy: “with man, the political animal, everything is given not by natural, but by social circumstance” (Polanyi, 1968, p. 64). The orthodox position, on the other hand, has openly and consciously replaced the market for God as the ultimate answer to any question of *why*.

As Polanyi ([1950] 2014) notes, the orthodox economic position was quite conscious of the fact that they had adopted the “market mentality” as the lens through which all must be seen – today updated as “thinking like an economist” – and that anyone looking for answers from the field of economics would be well advised to be aware of the fact. Economic activity that can be interpreted under the lens of the market mentality is allowed to enter into the discussion of economics, and that which cannot is alternately excluded from the discussion, or explained through myth.

By imposing a market lens upon all social activity, today’s orthodoxy has carefully appropriated words into its “body of ideas” so that “all right-thinking people” will associate a word that can be interpreted in different forms with only one key concept. For example, when we hear in common speech “well, it’s just human nature”, most understand “human nature” as a synonym for bad behavior. Repeated enough, many accept things as unchanging and unchangeable, when in fact, they are not even as they appear to be in the first place. Just as assuredly as all social structures are changeable, and indeed are all in constant change, it has always been a duty of orthodox thinking to limit the ideas that can enter into public debate to those that will not potentially undermine the private interests that support it. The mirror duty of institutionalism is not only to clarify what does what, but also what can do what. While social structures can be modified, a pig with wings cannot be expected to fly, and should not be confused with a bird with its wings clipped. Institutional function is key to understanding money and its institutions.

Arriving at the nature of anything is certainly a complicated task, and many legitimate debates can arise in the effort. However, there are more and less generally accepted forms for discovering answers to such questions, and the scientific sincerity of the orthodox position is revealed in its methodology.

[...] the laws of the one are those of the mind; the laws of the other are those of nature. The two meanings could not be further apart; semantically they lie in opposite directions of the compass [...] The two root meanings of economy, the substantive and the formal, have nothing in common. The latter derives from logic, the former from fact (Polanyi, 1968, p. 140).

In simpler terms, the orthodoxy is faithful to its interests, not to facts. Today’s economic orthodoxy employs what Tawney describes “a guise of scientific precision”, yet adopts the methodology of a pseudoscience, as the great mysteries are not to be discovered through scientific spirit and process, but rather through a conceptual system where they are all resolved *a priori*; one is a logical construct, the other a factual one. As the former is “quite removed from reality”, it must at once maintain its internal consistency, and defend its narrative from both reality and competing narratives. As a conceptual construct (“the laws of the mind”) the orthodoxy has consciously sought – although not always achieved – intellectual consistency. This has never been a goal of heterodox thinking. As in general heterodox thought seeks to understand reality, a plurality of positions is usually found around any object of study. It is perhaps to be expected that a coherent myth should conquer more minds than the diversity of a “messy” science.

The debate regarding human nature is a particularly illustrative one, as it has been rehashed through the ages, and always inconclusively. Polanyi contends that humankind has never known its true self, and can there be fairly easily convinced of possessing a nature of the most diverse forms:

Single out whatever motive you please, and organize production in such a manner as to make that motive the individual's incentive to produce, and you will have induced a picture of man as altogether absorbed by that particular motive. Let that motive be religious, political, or aesthetic; let it be pride, prejudice, love, or envy; and man will appear as essentially religious, political, aesthetic, proud, prejudiced, engrossed in love or envy. Other motives, in contrast, will appear distant and shadowy since they cannot be relied upon to operate in the vital business of production. The particular motive selected will represent "real" man (Polanyi, 1968, p. 68).

For Polanyi, the idea that people are fundamentally motivated by the principal motivations of capitalism – gain and accumulation on one side, loss and ruin on the other – is simply one out of many notions of human nature:

Under capitalism, every individual has to earn an income. If he is a worker, he has to sell his labor at current prices; if he is an owner, he has to make as high a profit as he can, for his standing with his fellows will depend upon the level of his income. Hunger and gain – even if vicariously – make them plough and sow, spin and weave, mine coal, and pilot planes. Consequently, members of such a society will think of themselves as governed by these twin motives (Polanyi, 1968, p. 69).

The definition of human nature – expressed in myriad and wildly contradictory forms over the centuries – is highly fertile myth making ground. Yet particularly when dealing with the nature of things, myth making must also involve a historical side: what is and what has always been. The orthodox myth of humans as economic creatures – *homo economicus* – is one that spans both humanity's past and present. In the case of money, we find a slightly more complicated orthodox position – that money has evolved in form but remains the same in essence as an unimportant appendage to production and commerce. The mainstream conceptual history is one of money evolving from barter and primitive society to kings and coins, and now the capitalist market system. On the side of historical fact, and as Polanyi argues, money is much like language and religion, an ultimate social creation present in all societies that have managed to survive for any appreciable amount of time. Polanyi does not argue that barter is inexistent, just that it never operates on a society-wide level in the absence of money: "Trade and money originate separately and independently of markets. They do not arise, as has been thought, from individual barter and exchange. Trade and money are much more widely spread institutions than markets" (Polanyi 1968, p. 190). More recently, Graeber (2011); Rochon and Rossi (2013); and Kregel (2021) make similar arguments.

Just as there is a reason for the orthodox position to consider humans as a part of the market and to behave with the market motives of personal gain and accumulation, there is also a reason for money to be seen as an evolutionary outgrowth of barter. For contemporary orthodox analysis, money is considered essentially as a facilitator of barter, nothing more than the veil that hides economic interactions, and not important in itself. This is the essence of the orthodoxy's conception of money's neutrality: prices may change, but it doesn't really matter, as each side ends up with what they want. Treated as an unimportant extension of barter, one can only exchange something for something else, but it all comes from work – money is passively assumed to be *ex-ante*. Just like the market lens turns members of society into members of the market, it turns money from a product of society to a product of the market. Indeed, given the blinders of the market lens, it is the only way that it can see money.

Seen under the market lens, conflicts of interest disappear. Nobody can simply create money at will, because as Friedman liked to repeat, "money does not grow on trees". And if money, like any other product of the market, is ultimately scarce, then "there is no free lunch", another favorite phrase of Friedman. However, the private market by itself cannot create money at any significant

or sustainable level. This can only be done in cooperation with the ultra-market social space of the state, and today, much like in ancient Babylon or any minimally successful society, there are architects of the system who design and maintain monetary systems: “we have plain enough warning of the fact that international money, any more than domestic, will not manage itself” (Volcker, 1978, p. 10). It is within this space, today inhabited by central banks and other institutions, private and public, that people socially determine what “thing” is being used as money, its abundance or scarcity, as well as its price, and what institutions regulate it, and how. These elements are never absent, nor could they be.

Seen through the market lens, money cannot exist, because it is not a product of the market. Seen as a product of society, money becomes the most important issue. The veil of the market mentality is crucial to hide the social struggle for the exorbitant privilege of bringing money to market for a profit. The heterodoxy’s intermittent desire to “pull back the curtain” of the market is not new, as seen metaphorically in *The Wizard of Oz*, nor is the orthodoxy’s desire to maintain the social aspects of money behind the curtain of market mystique: “unless this complex society is to be destroyed, the only alternative to submission to the impersonal and seemingly irrational forces of the market is submission to an equally uncontrollable and therefore arbitrary power of other men” (von Hayek, 1944, p. 210).

The presentation of the current system as the only system possible and one that indeed reflects human nature is therefore neither a new one, nor an unsuccessful one. It is the heterodox side that has consistently lost the battle of ideas, with its main proponents often assigned the role of “heretics” (Hobson, 1938; Robinson, 1973). There have certainly been important advances as heterodox ideas have gained strength among society in certain intervals, but this has happened ever less in recent decades. Even though the market structures and practices defended by the orthodoxy have changed drastically over the years, the predominance of the “there is no alternative” mentality has underlined the overwhelming victory of the orthodoxy’s position and has confirmed Polanyi’s observation that “such a forced conversion to a utilitarian outlook fatefully warped Western man’s understanding of himself” (Polanyi, 1968, p. 63).

There are still “heretics” today, and they sometimes come from the most orthodox of institutions. Formerly of the International Monetary Fund, Stiglitz has been very critical of financial globalization and of ICBs, as we will return to. Paul Romer, at the time president of the World Bank, stated that “macroeconomics, as it is currently taught, is a pseudoscience” (Romer, 2016). As we move further back in time with Polanyi and Tawney, the discussion is framed differently, and while we do not find mentions of a pseudoscience at the service of private finance – those who oversee the money trees and those who benefit from the corresponding free lunches – we do find the criteria necessary to distinguish between the scientific spirit of the heterodox position and the obscurantist position of the orthodoxy.

The two methodologies must “lie in opposite directions of the compass”, as the argument that markets are part of society is based on reality and can be defended with facts. On the other hand, the argument that society is part of the market – or is the market – is not based on reality and must be defended with sleight of hand, “under a guise of scientific precision” that is in reality anti-scientific: “the study of money, above all other fields in economics, is the one in which complexity is used to disguise truth or to evade truth, not to reveal it” (Galbraith, 1975, p. 5). Ignorance and confusion provide the cover of darkness under which orthodox myths may prosper, and yesterday and today’s prominent orthodox economists, whether in academia or in positions of public policy decisions, act as the updated high priests. Whereas in the past the religious priests served as a connection between the divine and the human, today’s economic priests serve as the chosen few humans who can interpret the market’s will: “much discussion of money involves a heavy overlay

of priestly incantation” (Galbraith, 1975, p. 4). Just as in the Catholic tradition God is to be seen as all powerful yet impossible to understand, for orthodox economics the market is all powerful and to be blindly submitted to, as von Hayek argues. The orthodox position can claim “the voice of science” only because no alternative visions are presented to reveal the masquerade: its “dialectical victories are won with ease, for they are won over shadows”.

Despite von Hayek’s wishes, there is no escaping the “power of other men”. Both Polanyi and later Polanyi-Levitt emphasize that “laissez faire is always planned” (Polanyi-Levitt, 2013). Even the most technical and impersonal market ultimately rests upon social constructs. For the heterodox position at the service of the public interest, the hope for establishing more humane economies is for them to be understood as what they are – earthy and socially determined systems. For the orthodox approach at the service of private interests, the hope to have social considerations left out of economic management was for centuries well protected by the almost universal belief in gold as the ultimate economic arbiter.

During gold’s reign, man and money could be fully ascribed a God given nature, and the uniform belief in gold proved to be a remarkably successful example of hiding the power of men behind the myth of a “natural” money:

It would be hard to find any divergence between utterances of Hoover and Lenin, Churchill and Mussolini, on this point. Indeed, the essentiality of the gold standard to the functioning of the international economic system of the time was the one and only tenet common to men of all nations and all classes, religious denominations, and social philosophies (Polanyi [1944] 2001, p. 28).

That the belief in gold was not to be questioned or better understood by academia was well recognized by Keynes: “the gold standard falls within the spheres of morals or religion, where free-thought is out of place” (Keynes, 1931, p. 221). However, once gold ceded the throne to fiat money, the myth of gold as the ultimate natural money was lost, and, the market had to take the place of god as the Dollar took the place of gold in theory and praxis.

When the word “natural” appears in academic literature or the financial press, it is a clear signal that the orthodox position is hiding an element of social determinism of the market, attributing social ultra-market decisions to the will of the market. For years, Greenspan was considered the supreme market oracle – the man behind the curtain, to again allude to the *Wizard of Oz*. Commenting on neutral interest rates, used as a synonym for natural interest rates,¹ Greenspan demonstrates his ability to comprehend that which a normal person cannot: “You can tell whether you’re below or above, but until you’re there, you’re not quite sure you are there (Andrews, 2004).² A decent mystery³ is necessary to hide a great power, and much as priests are venerated for their abilities to communicate between the divine and the earthly, a central banker such as Greenspan is elevated to the status of oracle for his ability to interpret the divine market and connect it to earthly functions. For the orthodoxy, the term natural is most accurately understood as market determination: the natural rate of unemployment, like the natural interest rate, is what the market wants it to be. “Natural prices” were God given prices in the economic literature of centuries past, and discussed by Adam Smith and even David Ricardo.

However, much like faith in God gets us no closer to knowing what God may or may not want, faith in the market also gets us no closer to understanding its will. Much like God before, today the

¹ “The concept of the neutral (real) rate of interest dates back to Wicksell ([1898] 1936), who called it the ‘natural’ interest rate” (Blinder and Reis, 2005, p. 16).

² As quoted by Wray (2004).

³ “The process by which banks create money is so simple that the mind is repelled. Where something so important is involved, a deeper mystery seems only decent” (Galbraith, 1975, pp. 18-19).

market is a powerful and mysterious force, not to be understood but rather feared and obeyed: “if the market wants a strongly negative real interest rate, we’ll have persistent problems until we find a way to deliver such a rate” (Krugman, 2013). Yet myth can never fully cover reality. The fact that economics is underpinned by the wider considerations of social control, and not simply the cold numbers of profit and supply and demand, is partially admitted to by Krugman: “anyone interested in economic policy should know that the history of how 2 percent came to define ‘price stability’ is peculiar, and that the argument for keeping that target is grounded less in straightforward economics than in almost metaphysical concerns about credibility” (Krugman, 2023d). Such a statement is not an invitation to curiosity, but rather another opportunity for man to submit to what he cannot understand: the “impersonal and seemingly irrational forces of the market”, to return to our quote from von Hayek.

This spirit is more evident when the topic turns to the international monetary order (IMO), which is held aloft by the collective of central banks, and completely “out of place” for mainstream discussion. Much like anyone was cast aside as a “crank” who doubted the gold standard’s wisdom a century ago, those who wish to understand the IMO today are likewise to be seen as suffering from a character defect: “global currency issues come across as glamorous and mysterious, so people imagine that they must be important – and yes, some people like to talk about them because they think it makes them sound sophisticated. You have to actually work with the numbers to appreciate how little is really at stake” (Krugman, 2023c). The orthodox position on the IMO is well represented by Krugman’s methodology, as when confronted with the most social of institutions, readers are pointed towards market numbers – exactly the wrong place to find the evidence.⁴

Krugman offers a further pairing of thoughts on the subject: “Dollar dominance sounds important if you haven’t thought about it much, but much less so if you have. In fact, in general, the more you know about international currencies, the less important you think they are” (Krugman, 2023a). Yet Krugman also provides what would appear to be a contradictory second position: “anyone who spends too much time thinking about international money tends to go mad” (Krugman, 2023b). But there need not be any contradiction; it may rather be the case of seeing the same object from two different visions and finding different outcomes. When seen through the lens of the market, international currencies can appear straight forward or even unimportant, yet when the market mindset stares too long into the social abyss – only madness can ensue!

The pseudoscience and conceptual histories of mainstream economics are only sometimes challenged by theory and reality, and in the latter case, most often in times of crisis. The popping of the subprime bubble in 2008 market offers a great example of such a moment. To borrow once more from the *Wizard of Oz*, and to slightly mix metaphors, it was at this moment when the curtain fell, and revealed the emperor with no clothes: “the whole intellectual edifice, however, collapsed in the summer of last year” (Andrews, 2008). It can only be a sure tale sign of a pseudoscience that when a maximum practitioner, following an epic failure of public policy, recognizes the corresponding intellectual failure, but the intellectual edifice in fact does not fall, but rather continues on as “zombie economics” based on “zombie ideas”,⁵ which despite clearly observable failure when confronted with reality, refuse to die. Yet such is the essence of social structures – “the emperor is not naked as long as his court declares that he is not naked” (Tawney, 1931, p. 123).

⁴ In passing, the numbers can show us how much “is really at stake”, but it is not an easy task. Some numbers are not available, and among those that are, one must know where and how to look.

⁵ Krugman uses these term “zombie ideas” as we do here, but in a much different sense.

As we close out this section with our cake analogy in mind, having now seen the methodology that divides the black and the white side of the cake, it would only seem logical that the dark side of the metaphor should go to the real life obscurantists. However, keeping in mind that “too much light can also blind”, and the fact that it is the orthodoxy and not the heterodoxy that projects their ideas onto society, we would think it more representative of reality to give the light side of the cake to the orthodox position.

2. The nature of humans and society

The orthodox position regarding human nature is mercifully quick and easy. Today’s rational actor, previously better known as *homo economicus* – *inter alia* – is the person who pursues only individual material reward. This is the bright side of the cake that is taught to almost all. Yet there is a long history of understanding humans in a different way, and Polanyi shines a light on this lesser known way as well as any: “Aristotle was right: man is not an economic, but a social being. He does not aim at safeguarding his individual interest in the acquisition of material possessions, but rather at ensuring social good-will, social status, social assets. He values possessions primarily as a means to that end” (Polanyi, 1968, p. 65). Smith makes a similar argument:

What reward is most proper for promoting the practice of truth, justice, and humanity? The confidence, the esteem, and love of those we live with. Humanity does not desire to be great, but to be beloved. It is not in being rich that truth and justice would rejoice, but in being trusted and believed, recompenses which those virtues must almost always acquire (Smith, [1759] 2005, p. 148).

Whether those who seek the accumulation of wealth harbor a confused understanding of social status and acceptance, or whether it is a sign of deeper social or individual problems, is a question long pondered in the heterodoxy. Keynes leans towards the latter, with his position informed by the studies of Sigmund Freud. As Dostaler and Maris (2000) convincingly argue, Keynes gained several insights from Freud, who was closely connected to the Bloomsbury group, to the point that several passages of Keynes’s *oeuvre* cannot be fully understood without the connection:

Midas’s insatiability is infantile, as is the desire for money [...] The paradox of Midas is that his fear of death, which leads him to desire more and more power over things through wealth, leads to his death. The miser dies on his pile of gold, the rentier drowns in his liquidity [...] Midas is also a metaphor for liquidity preference, ‘the fetish of liquidity’ (Keynes, 1936, p.155).

Keynes wrote forcefully, albeit infrequently, about the two sides of money, reminiscent of the *oikonomia*-*chrematistics* divide of economics from Aristotle’s time; or of Smith’s “two different models, two different pictures, [...] according to which we may fashion our own character and behavior (Smith, [1759] 2005, pp. 53-54)”; or the money as master or servant of humanity divide that Tawney proposes. Keynes distinguishes between “the love of money as a possession” and “the love of money as a means to the enjoyments and realities of life”; the latter, “to live wisely and agreeably and well” (Keynes, 1931, p. 367), and the former “a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease” (Keynes, 1931, p. 369).

By replacing the concept of society with that of the market, the individual is invited to adopt the spirit and mentality of the market, to be judged not by society, but the market. Therefore while

homo economicus can be fairly easily and correctly seen as a sociopath under a social lens, under the market lens, it is just another useful cog in the money making machine, as the market system operates more smoothly when all integrating parts act in concert and under the same motivation.

Moving on from the individual in society to society itself, we note that the identification of the two sides of society has been unsurprisingly more difficult for the heterodox position, as the mere conceptualizing society has proven illusive. Smith does so, and Polanyi names an essay “Aristotle discovers society”, yet the treatment of society as a independent entity has been far less developed by the heterodox position than the treatment of the market as such has been for the orthodox position.

The difficulty of the first task is contrasted with the ease of the second, whose success is only based upon its logical coherence within the overall market narrative. Yet once again, the orthodox position is as contradictory from reality as possible. Imposing market motives as the only motivations of a society makes no sense, even conceptually, as it would seem evident that any successful society would have to have people make ultra market decisions. Furthermore, it would have to have mechanisms in place so that the most avaricious and greedy cannot rule:

So merciless is the tyranny of economic appetite, so prone to self-aggrandisement the empire of economic interests, that a doctrine which confines them to their proper sphere, as the servant, not the master, of civilization, may reasonably be regarded as among the pregnant truisms which are a permanent element in any sane philosophy (Tawney, 1922, p. 62).

If it can be said of science that it is “haunted by insanity” (Polanyi, 1968, p. 59), the same certainly holds for philosophy. From the perspective of the social anthropologist, Polanyi sees little sane philosophy in that of capitalism, which universalizes the profit motive to where it was previously limited to certain occupations: “The motive of gain was specific to merchants, as was valor to the knight, piety to the priest, and pride to the craftsman. The notion of making the motive of gain universal never entered the heads of our ancestors” (Polanyi, 1968, p. 67). Sane or insane, such a notion was certainly never natural: “If so-called economic motives were natural to man, we would have to judge all early and primitive societies as thoroughly unnatural” (Polanyi, 1968, p. 66).

No society – and therefore no economy, can survive if all members operate under the dog-eat-dog market mentality, a point that apparently crosses few minds as today’s capitalism loses its mind and beaks down.⁶ Much like Polanyi’s concept of the three false commodities, under which the more socially disembedded money, nature, and humans become, the more they tend towards their destruction, Tawney offers a similar relationship between society and inequality:

Matthew Arnold observed that in the world inequality is almost a religion. He remarked on the incompatibility of that attitude with the spirit of humanity, and sense of the dignity of man as man, which are the marks of a truly civilised society. “On the one side, in fact, inequality harms by pampering; on the other by vulgarizing and depressing. A system founded on it is against nature, and, in the long run, breaks down” (Tawney, 1931, p. 16).

From the lens of social anthropology, the notion that the existence condition of a successful early society is social cohesion is similar to our previously explored discussion of the nature of money. Just as a successful society needs a functional system of material provisioning, so too does

⁶ “Yet a lack of honesty is a very great nuisance in society. It is a source of expense and it is thoroughly tiresome – just as tiresome for thieves as for everyone else; without honour among thieves even thieving would be impracticable” (Robinson, 1962, p. 4).

it need a social system that will allow the society to produce as a single coherent unit. To insist, none of this is a concern of the orthodoxy, as it simply wishes away society, and replaces it conceptually with the relationship of the individual with the market, well resumed by Margaret Thatcher's famous quote that "there is no such thing as society; it is just a collection of individuals".

Such negation reveals the antagonism of the market toward society in both theory and practice. Yet the concept that the good market is the bad society must be deduced, as it is not an openly recognized position of the orthodoxy. On the one hand, this should be expected, if only out of theoretical purity. What cannot be seen cannot be recognized, even in a negative sense. However, both conceptually and historically, the opposition of market forces to social forces is ever present.

Polanyi usefully identifies starvation as the dividing line between natural society and market society. On the one hand, "as a rule, the individual in primitive society is not threatened by starvation unless the community as a whole is in a like predicament" (Polanyi [1944] 2001, p. 171). Yet on the other hand, starvation is a conceptual imperative for the markets. In order for a system to operate under the notions of material gain and loss, both motives must be maintained. If the ultimate individual loss – that of the food necessary to survive – is not contemplated in traditional society that abides by "The principle of freedom from want" (ibid.), then the motivations of capitalist society cannot work, and therefore it is only logical that in order to release the scourge of hunger it is "necessary to liquidate organic society, which refused to let the individual starve" (Polanyi [1944] 2001, p. 173). Polanyi's discussion is not one of mere logic, and is indeed couched in the history of capitalism's expansion into the tropics, where hunger is still a prime motivator for work. Yet even where it is not, the same antagonism between the market and society remains. The market can less easily impose its will over the individual in a strong society, and has once and again resorted to "the smashing up of social structures in order to extract the element of labor from them" (Polanyi [1944] 2001, p. 172).

Whereas the nature of money and the individual can be measured under the parameter of whether they operate under a more social or market logic, we can obviously not apply the same standard to the market or society. The measuring stick used by many to judge societies – including Smith and Polanyi – is that of civilization. To what degree we can claim that the natural society is the more civilized society is a matter for debate that we will not engage with more here, but there is much less room for legitimate debate around the premise that the more material or market based a society is, the more civilized it is.

This is not to say that the effort has not been made, however, and perhaps the most notable example is the in the orthodoxy's celebration Adam Smith as the father of modern economics. Yet the disingenuousness of the proposition reveals the impossibility of the argument. For the average person – or academic economist for that matter – any knowledge of Adam Smith is usually boiled down to the invisible hand, understood as how individual greed allows the market to function and create public welfare. Yet Smith clearly and consistently maintains a dividing line between self-interest and selfishness and greed, and pointedly inveighs against those who preached such motivations; and the "invisible hand" is an explicit reference to the hand of God, both in Smith's texts and in the parlance of the time.

In the realm of ideas, Smith and Hume placed God at the center of their analysis. As the church would gradually disappear from economic authority, and the positions of the economic orthodoxy would replace many functions of God for those of the market, it should only follow that Smith's invisible hand that performed the divine function of serving the public interest through the private interests of the butcher, the brewer, and the baker, would be transformed into price signals sent from the ultimate processor of wants and needs – the omniscient and omnipotent market.

One could argue that Smith should be considered a father of sociology along with economics, but by making it divinely ordered, gets little credit as an early sociologist. For Smith,

Human society, when we contemplate it in a certain abstract and philosophical light, appears like a great, an immense machine [...] so virtue, which is, as it were, the fine polish to the wheels of society, necessarily pleases; while vice, like the vile rust, which makes them jar and grate upon one another, is as necessarily offensive (Smith, [1776] 2001, p. 288).

Within this divinely determined society, in which individuals acting with self-respect and respect for others all perform the task of their God-given stations, the rich are thrifty and employ rather than hoard their capital. Only falling afoul of their duties do the rich become vain and lazy, living off of luxuries rather than leading processes of production. With those at the top of the social pyramid doing what they should, those at the bottom are likewise hard working and socially responsible, and when not, “they are in general idle, dissolute, and poor” (Smith, [1776] 2001, p. 563). A market functions best with good manners, and under conditions in which competition becomes synonymous – or replaces – the religious principles of honesty in exchange. The bad economy and society is characterized by bad manners in society, and “the wretched spirit of monopoly” (Smith, [1776] 2001, p. 768) in the market. Smith offers a contemporary living comparison of the good and bad society between the manufacturing towns of Protestant north Europe, and the seats of the great royal courts of Catholic Europe (Smith, [1776] 2001, p. 274).

Smith helpfully divides his two great works between the material and spiritual and artfully shows how they are related, a tradition most closely followed by Tawney and Polanyi, even as the both give short shrift to the Smith or Hume. The *Wealth of Nations* in particular disparages the orthodox mercantilist position which holds that the spirit of the economy is material conquest, and that the accumulation of precious metals is equal to wealth. For Smith, the wealth of a nation resides in its people, meaning that the good society is the good economy, and that the enemy of both is social in nature: “All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind” (Smith, [1776] 2001, p. 695).

Between Hume and Smith, and Tawney and Polanyi, we can trace the elements of the market economy that define it as an uncivilized social system. We begin with the moral philosophy of might makes right:

Men vary in physical strength; but so far as their social relations go that inequality has been abolished. [...] Yet there must have been a period in social evolution when this refusal to permit the strong man to do what he liked with his own physical strength seemed, at least to the strong, an outrageous interference with personal liberty. [...] There is, in fact, no more reason why a man should be allowed to use his wealth or his brain than his physical strength as he likes [...]. The liberty of the weak depends upon the restraint of the strong, that of the poor upon the restraint of the rich, and that of the simpler-minded upon the restraint of the sharper (Tawney, 1931, p. 192).

The philosophy of “all for ourselves, and nothing for other people” is a clear antonym of the restraint of the rich, and can only lead to great disparities in wealth, a condition that runs not only counter to society, but also the markets that ultimately rest upon social forces. Seen through a social lens, the market society is and must be one of might makes right, which can only generate greater inequality, and must always maintain a conflict between market and society.

In more recent times, many authors, notably Galbraith (2012) and Furtado (2003)⁷ have focused on inequality and its relation with the economies under their study and have placed great

⁷ See also Vidal (2000).

emphasis on the negative aspects of inequality on both economics and humanity. Looking further back in time, for both Smith and Hume, inequality also figures as the great dividing line between the good and bad society and economy: “There seems to be a happy concurrence of causes in human affairs, which checks the growth of trade and riches, and hinders them from being confined entirely to one people” (Hume, 1752, p. 15). Both money and wealth must be spread for societies and economies to function well: “the rate of profit does not, like rent and wages, rise with the prosperity, and fall with the declension of the society. On the contrary, it is naturally low in rich, and high in poor countries, and it is always highest in the countries which are going fastest to ruin” (Smith, [1776] 2005, p. 446).

Seen from the social perspective and at a greater historical distance, such happy concurrences of causes in human affairs have been explained by Polanyi as the balancing of social forces with market forces – the essence of his “great transformation” hypothesis – and by Tawney as the existence condition of successful society. Again, inequality is incompatible with the spirit of humanity, and a “system founded on it is against nature, and, in the long run, breaks down”. For Tawney,

What matters to a society is less what it owns than what it is and how it uses its possessions. It is civilized in so far as its conduct is guided; by a just appreciation of spiritual ends, in so far as it uses its material resources to promote ‘the dignity and refinement of the individual human beings who compose it’. Violent contrasts of wealth and power, and an indiscriminating devotion to institutions by which such contrasts are maintained and heightened, do not promote the attainment of such ends, but thwart it. They are, therefore, a mark, not of civilization, but of barbarism, like the gold rings in the noses of savage monarchs, or the diamonds on their wives and the chains on their slaves (Tawney, 1931, p. 79).

Under the social lens, monetary institutions can be seen as occupying the role of transmitting the spirit of a social arrangement of production into market prices, and in our current juncture, of transforming the idea of might makes right into greater inequality and social and market dysfunction. Having already mentioned Catholic tradition in this article, we can bring the market’s antagonism to society up to date with religious doctrine of material austerity as directed by earthly masters. While Catholic austerity promises riches in heaven for suffering on earth, the submission to forces beyond our control in the godless market system offers only ritual sacrifice with no promise of eternal reward.

3. The nature of money – banking and gold

Having now discussed the two sides of the cake in relation to humans and society, the myths of money’s history, the opposing ideals of the accumulation of wealth for the few and the circulation of money for the many, we can now more closely examine the contrasting market and social visions of money. The orthodox position necessarily shines little light on the subject, for the simple reason that money is not a market creation. In the past, it was easier to see it as such: gold was mined for a profit under a capitalist system, just as banks could issue private banknotes. But even under such schemes often celebrated for being “free market”, state participation has always been key. Whether it is gold or fiat currencies, private or public banknotes, under capitalism it is the state that determines what is money, how it is managed, and how private finance can both create and make money.

As orthodox monetary theory was built around gold as being the only true money, its current absence in the money positions obliges the orthodox position to make money disappear, or at least fade into the background. The position is openly recognized: “Economists’ attitudes towards money vary a great deal. As a rough classification, there are three groups. The first group might be described as ‘nonmonetarists’. A nonmonetarist is someone who thinks that money doesn’t matter” (Kiyotaki and Moore, 2008, p. 2). Second in line is the group that

might be described as ‘pragmatists’. A pragmatist [...] needs a model of money to use. [...] Money can be seen more as grit-in-the-system than a lubricant in the models, so they aren’t models of a monetary economy as I have defined it. [...] The third group might be described as ‘fundamentalists’. A fundamentalist is someone who cares deeply about what money is and how it should be modelled. [...] Without money, opportunities for bilateral trade would be rare, given that a coincidence of wants between two people is unlikely when there are many types of goods” (Kiyotaki and Moore, 2008, pp. 3-4).

It is interesting to note that the orthodoxy’s three shades of gray when examining money are all attributed to economists’ “attitudes”. Perhaps this is another example of the market lens: those who see money through a social lens are not applying the correct methodology, and therefore should not be considered economists. In the case of Hume and Smith, the orthodoxy has made as many attempts to see the authors under their market lens as it has to count them as one of them, yet the written record remains, and Hume and Smith fall firmly and unwaveringly within the side of social determinacy of economics.

Both Scots define money by its nature. Hume states that

money is not, properly speaking, one of the subjects of commerce; but only the instrument which men have agreed upon to facilitate the exchange of one commodity for another. It is none of the wheels of trade: It is the oil which renders the motion of the wheels more smooth and easy (Hume, 1752, p. 15).

Smith’s vision is similar: “Money, therefore, the great wheel of circulation, the great instrument of commerce, like all other instruments of trade, though it makes a part, and a very valuable part, of the capital, makes no part of the revenue of the society to which it belongs” (Smith, [1776] 2005, pp. 479-480).

Adopting the social view of money like Hume and Smith, Tawney connects what would come after his life – *Hello Dolly* – with what came well before:

When Bacon, who commended Henry VII for protecting the tenant right of the small farmer, wrote [...] “Wealth is like muck. It is not good but if it be spread”, he was expressing in an epigram what was the commonplace of every writer on politics from Fortescue at the end of the fifteenth century to Harrington in the middle of the seventeenth” (Tawney, 1922, p. 62).

Tawney speaks of money as the terrible master or excellent servant of society (Tawney, 1922, p. 62; Tawney, 1931, p. 16), while Polanyi offers a slightly different framework – the aforementioned three false commodities. For Polanyi, a commodity is something produced by people to be sold to other people, but neither nature, humans, nor money are produced by people. They can have no market value as it is infinite: without either of the three, markets would not exist. By nature, money is not created by people, but rather society, and exists to serve the extra-market role of facilitating production and commerce, not to be bought and sold itself.

Following Polanyi's hypothesis, when the false commodities are sold as real ones, or when theory considers them as such, theoretical blunder and real life disaster follow.

Just as for Tawney money should be a servant of society, for Polanyi it should be socially embedded in order for society to succeed. The social embedding of money can be achieved in many ways, even at the opposite ends of the spectrum of traditional political economy, by having the state do the provisioning of money and capital on the one extreme, or by having the competitive capitalist market do it on the other extreme. More common in recent times is the middle ground of regulated capitalism, with some mix of state and private banks performing the functions of monetary creation and circulation, under both the discipline of the market and the regulator. Yet regardless of design or arrangement, the public interest of money and banking is best served when money is allowed to function in accordance with its (social) nature.

Whether money is socially embedded or not, whether overall economic systems create the incentives for money to be circulated or hoarded, ultimately depends on the institutions that control money – the banks, be them private, public, or central. But underlying these considerations is also the millennial relationship between gold and other forms of money and how it has evolved. As we argue, the orthodox-heterodox divide over money holds firm from the time of Hume and Smith to today; however, the context has changed to a large enough degree that further context is warranted.

Hume and Smith lived in the age in which Europe was in a long transition between *ancien regime* economic systems that were feudal at home and mercantilist abroad, and the capitalist system that was emanating from merchant cities and trading hubs, along with the accompanying Calvinist faith, which gained important strongholds in places such as Scotland. Both Hume and Smith were extremely critical of the old system and quite optimistic regarding the emerging system. During their time, private banking provided much public utility in the expansion of production at no apparent social cost: “an operation of this kind has, within these five-and-twenty or thirty years, been performed in Scotland, by the erection of new banking companies in almost every considerable town, and even in some country villages” (Smith, [1776] 2005, p. 490).

Escaping from monetary scarcity implied “the judicious operations of banking, by substituting paper in the room of a great part of this gold and silver, [to] enable the country to convert a great part of this dead stock into active and productive stock; into stock which produces something to the country” (Smith, [1776] 2005, p. 536). Seen from the social angle of Adam Smith, the nature of the bank is to ensure that money can operate naturally – abundantly and in high circulation at the service of production and commerce. The bank can in this way be seen as the institution that can turn the “bad” money of gold into better bank money, ultimately a highly human affair, dependent upon the “fortune, probity and prudence of a particular banker” (Smith, [1776] 2005, p. 91).

Beside the free competition between numerous small private lenders, the other institutional setting in which money is able to act in a way close to its nature as identified by Hume and Smith is public banking. Much like private banking was able to issue paper money off the guarantee of gold, turning a dead stock into living circulation, early public banks were able to turn the bad money of gold into the good money of bank money in other ways. Other than being a poor object of monetary circulation, gold – and coin in general – was commonly debased in one form or another, or just wore down: “before 1609, the great quantity of clipt and worn foreign coin which the extensive trade of Amsterdam brought from all parts of Europe, reduced the value of its currency” (Smith, [1776] 2005, p. 802). A certain class made clear its needs for a good money – “The merchants, with plenty of currency, could not always find a sufficient quantity of good money to pay their bills of exchange [...] in order to remedy these inconveniencies, a bank was established in 1609, under the guarantee of the city” (Smith, [1776] 2005, p. 802). Yet the bank of Amsterdam

and others did not only serve to regulate metallic coin, but also created forms of bank money in order to supplant gold: "This credit was called bank money, which, as it represented money exactly according to the standard of the mint, was always of the same real value, and intrinsically worth more than current money" (ibid.).

Hume and Smith provide an example of humanity discovering how to master money for its needs, of socially embedding money through the proper use of public spirited institutions. Smith is unequivocal in his position of "the superiority of bank money over current money" (Smith, [1776] 2005, p. 550). Early capitalism was accompanied by the discovery of the bank as one of the great forces to bring the world out of the restrictions of gold, yet it certainly was not the only one. In the centuries old ebb and flow between gold and other forms of money, gold has been among the most appreciated and accepted form of money, yet gold is best seen as the money of the top layers of society, maintaining the function of state to state or ceremonial transfer and the common unit of account for centuries, until very recently. But at all lower levels of society among economies that that use gold as payment, the severe limitations of gold as a money have been overcome by circulating other things as money, as well as employing mechanisms of credit and social accounting.

For centuries, gold was the favored money of the orthodoxy in both theory in practice, and considered by most all to be the only natural money. Yet under the social lens, gold is simply an inert metal. Its determination as money only depends on whether society wishes to use it as such. It therefore becomes important to emphasize who prefers gold to be positioned as the ultimate money and why. During the formal Gold Standard, the social forces that maintained the incredibly successful fiction that gold was the ultimate natural money were those who sought to maintain aloft the spirit and practice the *ancien regime*, along its barbarous relic, as so identified by Keynes. Gold is the preferred money of the orthodoxy precisely because it is so antisocial – so shiny and seductive, so tempting to steal and hoard. The anti-social adulation of gold and wealth is well captured in the myth of Midas, for just as an individual would starve to death if everything were gold, society would as well, as material provisioning depends on efficient systems of production and payment, under which the more worthless for accumulation the money object, the greater its social worth in ease of circulation. Much as gold has long been a maximum symbol of individual wealth as seen from the market lens, an otherwise unvalued token that serves as money only upon the strength of social accord is a maximum symbol of social wealth as seen from the social lens.

It is only by considering that no money object is natural, but merely socially determined, that we can judge the market utility against the social utility of certain money objects. Gold is the superior money for accumulation, but a terrible money for circulation. Under the market lens, gold fulfills all of the standard characteristics of money, yet under the social lens, paper money, along with the payment system that supports it, provides a far superior lubricant for the wheels of commerce.

Gold's positioning as the ultimate anti-social money under capitalism was a strictly social phenomenon. The Gold Standard serves to maintain a systemic monetary scarcity that could only be alleviated by the international lending of the great international private banks. The positioning of gold as the ultimate money under the Gold Standard also serves interest of the private banks in limiting other sources of possible monetary abundance – gold is "the sole prophylactic against the plague of fiat moneys" (Keynes, 1931, p. 183).

The abandonment of gold for the dollar should not be seen as another moment of human interests overcoming money interests, however. In the last half century of the Dollar standard, the Dollar has simply filled the same prophylactic role as gold did under the Gold Standard. The mechanisms of monetary scarcity at the service of private finance remain essentially the same:

banks expand money upon gold, or now the Dollar, but only to a certain limit – the loanable funds theory in practice. Private bank lending capacity is intimately connected with a nation's reserves through the monetary standard and the central bank:

the appeal of maintaining a fixed rate between gold and the currency was that it automatically kept the international and domestic economy in equilibrium by relating the domestic money supply to the external balance of payments [...] the rules were simply that the bank should raise its discount rate when the gold reserve diminished and lower when it increased" (Ferguson, 2001, pp. 152-154).

The first rule and prime directive for central banks and private banks was alike – to allow a certain proportion of paper money to be expanded upon the gold reserves: "There was a single, overriding objective, to maintain the convertibility of the currency into gold, and this discipline maintained both the internal and external value of the currency" (Capie et al., 1994, p. 10). As long as such proportions were respected, discipline remained intact, and the loanable funds theory was real.

Much like today's heterodoxy has criticized such theoretical positions under the Dollar Standard, in centuries past the orthodox view that held that respecting the sanctity of gold would lead to greater prosperity also drew many critics, and Hume was a prominent one, arguing that quantities of gold are of much less importance than a healthy banking system in determining the investment of an economy:

In order to have, in any state, a great number of lenders, it is not sufficient nor requisite, that there be great abundance of the precious metals. It is only requisite, that the property or command of that quantity, which is in the state, whether great or small, should be collected in particular hands, so as to form considerable sums, or compose a great monied interest. This begets a number of lenders, and sinks the rate of usury; and this I shall venture to affirm, depends not on the quantity of specie, but on particular manners and customs (Hume, 1752, p. 15).

As discussed previously, both a "great monied interest" conformed of "a number of lenders" and a great public bank can produce abundant credit and money for the economy, therefore creating both the conditions that allow money to operate according to its nature, and a healthy economy: "Nothing is esteemed a more certain sign of the flourishing condition of any nation than the lowness of interest" (ibid.). We can easily move through the dark side of the cake with Hume's social vision and logical consistency: money is a social construction – "having chiefly a fictitious value" (ibid.), whose low price "is not derived from the quantity of the precious metals" (ibid.), but rather from a hard working and honest society: "these circumstances are all connected together, and proceed from the encrease of industry and commerce, not of gold and silver" (ibid.).

Hume's position is not only logically consistent, but also historically resistant, in that it can be just as easily applied today as in his days. Yet a point of apparent contradiction does arise. Hume, in a quote similar to one just used, states that "interest is the barometer of the state, and its lowness is a sign almost infallible of the flourishing condition of a people" (ibid.). Yet the post-crisis deflation of Japan, the US, and the Eurozone, did not seem to offer prime examples of human flourishing. Hume does include the word "almost", however, and the exception proves the rule, as high interest rates so clearly mark the upper hand of those who have money over those who seek to obtain money, and the transfer of wealth from the debtor to the creditor. The rate of interest is such an important social mechanism that it could inspire Keynes to envision the euthanasia of the rentier class with its setting at zero; or to inspire Tawney to place the price of money and humans on the opposite ends of the seesaw between human and market interests,

with interest rates at the fulcrum: “Nor is their economic interest identical, as is sometimes assumed, with that of the general public. A society is rich when material goods, including capital, are cheap, and human beings dear” (Tawney, 1922, p. 113).

For something so socially important, the idea that interest rates could be determined by forces that are supposedly not social – such as quantities of gold or paper – is quickly revealed as absurd in common sense terms. It is also constantly disproven in reality, as there are two “habits and manners which prevail” (Hume, 1752, p. 15), both today and in Hume’s times, that render large quantities of gold or dollars irrelevant to greater national investment: the hoarding of such money and its shipment abroad. We begin with the latter, and with the consideration that just because the social characteristics of private lending ultimately determine investment, and that a country can lend much off the back of little, does not mean that it is advisable for a country to let its gold or dollars escape. Hume’s observation that “the good policy of the magistrate consists only in keeping it, if possible, still encreasing” (Hume, 1752, p. 15) could seem too obvious to mention, yet the maintenance of monetary standards means that peripheral countries are destined to lose their gold or dollars. The many market based justifications of independent central banking cannot evade the simple social fact that “a nation, whose money decreases, is actually, at that time, weaker and more miserable than another nation” (Hume, 1752, p. 15).

Yet whether in the center or the periphery, the most impactful custom that impedes great sums of money from increasing overall investment is the lack of restraint of the rich in allowing for competition in banking systems: “It appears, that the want of money can never injure any state within itself: For men and commodities are the real strength of any community. It is the simple manner of living which here hurts the public, by confining the gold and silver to few hands, and preventing its universal diffusion and circulation” (Hume, 1752, p. 15). Today as yesterday, the price, distribution, and distribution of money is determined not by amounts of money, but by the social design and institutional functioning of banking. Yet unlike in Hume and Smith’s time, today the maximum institution in this regard is the central bank.

4. The nature of central banks

Among more recent economists, Polanyi holds the academically rare position of considering gold to be money, yet not the only natural or superior money. Yet while sharing perspectives on money with the likes of Hume and Smith, Polanyi is alone in identifying the *why* of the central bank. He does not explicitly refer to a nature of the central bank, but he gets us close enough to it that with the assistance of other authors, we can fill in the gaps with relative ease.

Unlike gold and money and people, banking has only been around in the west for less than a millennium,⁸ and central banking much less than that. Unlike its treatment of money, the orthodoxy does offer all of the elements of a good social definition of the CB and the ICB, from which a nature could be fairly easily deduced; however, when it comes time to formulate a definition of central banking, these elements are left unused, and the orthodoxy muddles the definition just the same.

Capie et al. (1994) provides a useful and relatively current version of the orthodox perspective on central banking, and indeed share the methodology that we have already seen when the orthodoxy attempts to define something through the market lens: “Defining central banking is problematic. In one sense we recognize it when we see it. The Bank of England was established in 1694, but at that time there was no concept of central banking” (Capie et al., 1994, p. 5). The

⁸ Unless we wish to count Classic Greek and Roman banks.

academic as the oracle, able to “see” what mere mortals cannot, is particularly ironic in this instance, as Capie et al. see much but choose to understand little, almost as if the authors are conscious of revealing too much, for despite getting very close to defining central banking or ICBs, when the authors explicitly take up the task, they choose a nonsensical one: independent central banking is “the right to change the key operational instrument without consultation or challenge from government” (Capie et al., 1994, p. 50).

This aside, Capie et al.’s study is particularly useful to our arguments, as it supports Polanyi’s position, even though this is not the authors’ apparent intention. Capie et al. track the history of the early central banks such as Sweden’s Riksbank and the Bank of England back to when there was “no concept of central banking”, highlighting their beginnings as commercial banks and their gradual gain of functions until becoming what many non-academics today would recognize as a central bank when they see it.

The concept of central banking expectedly followed the evolution of the institution, but its novelty is worth emphasizing:

Prior to the publication of *Central Banks* by Kisch and Elkin in the beginning of 1928 there was no book that has the words “central bank” or “central banking” in its title [...] the terms “central bank” and “central banking” were novel and only just coming into common usage. As Singleton (2011, p. 11) remarks, Palgrave’s *Dictionary of Political Economy* (1894) has no entry for them (Do Vale, 2021, p. 9).

Even as relatively new institutions, the spread of central banks was not rapid, nor widespread until the early to mid-twentieth century. The fact that “in 1900 not a single central bank existed in the Western Hemisphere” (Richmond Fed, 1962) drives the point home. To recall Tawney, it is only normal to regard as “natural the institutions to which [one] is accustomed”, and from today’s vantage point, many assume the central bank to be venerable old institutions, when in fact they are relatively new and have proved extremely malleable in the institutional functions that they serve.

Attempts to define a central bank through market function have proven to be just as unsuccessful as similar attempts to define money through market function, and for the same reason. While it would be ideal for money to act as gold once had – as a store of value and a universal equivalent, the fact that money is a social rather than market product means that it does not always attend to market ideals. Just as gold is no longer a universal equivalent, many national currencies are terrible stores of value, but are still used as money – and still are money. Also products of society and not the market, many central banks have at times ceased to serve key functions, and perhaps more importantly, have had key functions performed by other institutions, yet remain central banks. Again, when the question of *why* accompanies the question of *what*, we can appreciate both social origins and market and extra market functions, and arriving at a proximate nature of the thing at hand becomes much easier.

With the question of *why* in mind, we present the more noteworthy orthodox attempts at *what*. We begin with two 1962 articles that offer an important contrast within the orthodoxy between a more purist and more accommodationist presentation. A short article by the Richmond Fed represents the latter, and includes “the nature of central banking” in the title, an uncommon combination of words in the economic literature, let alone in a title of an article. Defining the nature of the central bank through its contemporary functions, the document states that “central banks exercise one of the prerogatives and powers of the sovereign government” (Richmond Fed, 1962). However, the same year, in what is considered by many as the seminal work on central banking, Friedman the purist dismisses the entire idea: “so far as I know, these views have never

been fully spelled out—is that control over money is an essential function of a government comparable to the exercise of legislative or judicial or administrative powers” (Friedman, 1962).

We soon return to why the Richmond Fed’s definition is fundamentally incorrect, and how Friedman feigns ignorance in his position, but first we continue with the Richmond Fed’s attempt at answering the question of *what*. Much like Capie *et al.*’s attempt, the Richmond Fed states that “It is not possible to give any brief definition of a central bank which will be both comprehensive and accurate. To a considerable extent the nature of a central bank depends on its functions and those functions vary from country to country and from time to time” (Richmond Fed, 1962).

The question of what sets central banks apart from other banks is similar to the question of what sets money apart from non-money things, and in both cases, many authors have attempted to distill out a nature based on an evolutionary history of market functions, yet with little success. In the case of central banking, Gorton (1985) argues that the activity that sets central banks apart from others is that of a clearinghouse; for the Richmond Fed (1962), it is that of non-commercial banking; authors from the Atlanta Fed (Quinn and Roberds, 2005) define central banking as control over the payments system; while Bindseil (2019) argues that central banks are simply the institutions that make central bank money.

The Richmond Fed’s attempt to define central banking rests heavily on current market functions, with some of them having changed drastically between then and now. Yet it also includes a helpful and indeed uncommon description of its social roles and institutional structure: “In every major country of the world the central bank is the central arch of the monetary and financial system” (Richmond Fed, 1962). The central arch is an apt visual metaphor for the intersecting point at the top of a country’s financial systems, where the central bank “functions rather as a bankers’ bank, acts as fiscal agent and adviser for the national government, and manages the country’s money and credit system” (Richmond Fed, 1962). Like many other authors, Tawney prefers a similar but different geometric metaphor: “all social structures are pyramids” (Tawney, 1931, p. 67) and central banks represent “a pyramid in which power radiates downwards, from a tiny knot of bankers at the top, through intermediate layers of industrialists and merchants to the mass of common men (Tawney, 1931, p. 181).

Envisioned either as a pyramid or as a cathedral’s arches, we can now bring the question of *why* back into focus and continue with the pairing of the two 1962 articles, which ultimately share the same sin of economic theory: the projection of normative upon positive economics. The Richmond Fed perhaps commits the lesser sin, as it tilts the defining functions of central banks towards a spirit of public service that was in fact operative at the time:

One of the most important characteristics of a central bank, and the one which distinguishes it most sharply from a commercial bank, is that it must subordinate considerations of profit to its responsibility for public service [...] a central bank may be broadly defined as a public service organization which does not engage in commercial banking (Richmond Fed, 1962, pp. 3-4).

The Richmond Fed shapes its definition of the central bank along the dividing line of pursuing public or private interests, bringing the debate well within the realm of institutionalist thought, in which the conflicts between private or public interests lie at the heart of many debates.

Friedman’s normative vision of the nature of central banks excludes any possibility of public service: “the ideal type envisaged by proponents of an independent central bank, has been achieved in those historical instances where an organization that was initially entirely private and not formally part of the government at all has served as a central bank” (Friedman, 1962, p. 226). Friedman’s vision of an ICB is similar to that of Capie *et al.*’s examination of the Fed in its early years, in that they both get very close to a social definition and nature: “It operated independently

from government. It had become the bankers' bank, a role enhanced by withdrawing from commercial rivalry. On occasions it might help to rescue financial institutions, but on an *ad hoc*, cooperative basis without general commitment and without accepting any formal regulatory or supervisory role" (Capie et al., 1994, p. 15). Both Friedman and Capie et al. describe a one way street: a private bank that enjoys the privilege of financing the state, but that holds no responsibility to the public as would any other part of the state.

But an ICB is not betrothed to none. Capie et al. offer a historical progression of the extra-market social functions gained by central banks throughout the 19th century, including monopolistic note issue and lender of last resort functions, but most importantly, the mentioned "single, overriding objective, to maintain the convertibility of the currency into gold". As Capie et al. highlight, by the 20th century, central banks were either being born or being incorporated into the state. The nationalization of the Bank of England in 1946 marks an important example: "To quote the Radcliffe Committee Report (1959, para. 767): 'More than that, monetary policy, as we have conceived it, cannot be envisaged as a form of economic strategy which pursues its own independent objectives. It is a part of a country's economic policy as a whole and must be planned as such'" (Capie et al., 1994, p. 54). Friedman's claim that "these views have never been fully spelled out", when the Richmond Fed does exactly so in the same year of publication can be believed, but that Friedman had gotten no wind of a very influential report three years earlier stretches the limits of credulity.

Returning to the other side of normative error, we recall the Richmond Fed's statement that "central banks exercise one of the prerogatives and powers of the sovereign government" (Richmond Fed, 1962). National sovereignty has never been an existence condition of a central bank, nor has it often been an objective. Today and yesterday, many formally sovereign countries do not enjoy monetary sovereignty, and do not issue central bank currency, even though they have formally recognized central banks. Furthermore, such a definition excludes central bank independence, both on paper and practice, *de jure* and *de facto*, before and after the Richmond Fed published the paper.

The Richmond Fed also states that "a central bank may be broadly defined as a public service organization which does not engage in commercial banking". The statement's veracity at the time is saved by the word "engage", as maintaining the gold standard for the gain of private banks, or allowing market interests to set interest rates through the repurchase market (Menand and Younger, 2023), could plausibly not be categorized as direct engagement. Yet much as the oldest central banks began as commercial banks, today several of the world's largest central banks have become the largest national shareholders of private companies, an activity that inescapably falls outside of the limits of "not engag[ing] in commercial banking".

To return to where we started this section, our market oracles clearly do not know central banks when they see them. By ignoring the social side of central banks or money, economic thinking sees ghosts and illusions, but rarely arrives at a historically consistent conceptual definition of the object at hand. As we have argued, much like money, the nature of a central bank cannot be found when *what* is not accompanied by a strong dose of *why*, and when definitions based on market functions are not accompanied by definitions based on social functions.

Polanyi provides us with a systemic theory to understand why central banks have changed so much in social function, but also in formal ownership and in the degree to which they have served the private or public interest of nations' money. In Polanyi's theory of the double movement, the market expands in the first movement, and then is regulated in the second, and it is this action and reaction that creates the synthesis of regulated markets that have characterized capitalism's expansion. Under this lens, we can appreciate how the increased spread and depth of the gold

standard obliged the expansion of central bank functions to regulate gold for the economy's protection.

The realization of the double movement is envisioned by Polanyian thinking is the struggle from different sectors of society to gain the protection of the state. Regarding the central bank, it finds a prime example with the Bank of England:

Freed from the obligation to convert its notes after 1797 it was accused, by those who went under the name of bullionists, of being responsible for the falling exchange rate – a consequence of its over issue of notes. The Bank rejected the idea that it had the power to influence the price level, or indeed that it had public responsibilities. But the case was clearly developing that the Bank was something other than a private profit maximising institution. It had many of the characteristics of a modern central bank. And it was being urged by people such as Henry Thornton to behave in keeping with that (Capie et al., 1994, p. 51).

As the Bank of England gained power and functions that were increasingly recognized, the institution became the object of political struggle for a multitude of private interests, and importantly, for protecting the overall public interest. In other words, the more the central bank began to act as a state institution, the more people began to ask for it to behave like one. At the same time, the need for protection increased as the deflationary pull of the ever more formalized gold standard increased, particularly given its penchant for violent swings in times of crisis. For Polanyi, modern central banks were born out of the need of the banker class for state protection against the gold standard that they increasingly came to manage: “Modern central banking, in effect, was essentially a device developed for the purpose of offering protection without which the market would have destroyed its own children, the business enterprises of all kinds” (Polanyi [1944] 2001, p. 201). It was a marker of the social power of high finance that this class was able to find protection in the state.

By “modern”, Polanyi means the period of time under the consolidated gold standard – informally set in 1815 by the Congress of Vienna and then more formally a half-century later throughout Europe:

For those institutions founded in the nineteenth century and gradually emerging as central banks in the course of the century there was relative independence. These banks increasingly, particularly as the century wore on, acquired the responsibility of maintaining convertibility of the currency under the gold standard. It was in this period that central banking as we understand it today can be said to have emerged (Capie et al., 1994, p. 51).

As correctly described by Friedman and Capie et al., early central banks were commercial banks that lent to the crown at a profit. This is a diametrically different origin from public banks that began to emerge in the major trading hubs of Europe in the previous centuries – the first of which being the Taulia de Canvi de Barcelona in 1401 (Bindseil, 2019). Such public banks were established with specific public service mandates to ensure the soundness of money so that commerce could proceed smoothly.

For Hume and Smith, the division between central and public banking was quite clear. One was born as a private for profit institution and the other for “public utility, however, and not revenue” (Smith, [1776] 2005, p. 678). Honesty in dealing was the guiding spirit of the public banks of the day. It stood in contrast to prevalent dishonesty in markets: “A public bank, by this expedient, might cut off much of the dealings of private bankers and money-jobbers” (Hume, 1752, p. 15). Lack of adequate private financing market another reason for existence: “the banks of

Venice, Genoa, Hamburg and Nuremburg offer honest and stable financing in the absence of a competitive market of private lenders” (Smith, [1776] 2005, p. 801).

As for profit ventures of a different spirit, early central banks – even if not defined as such by Hume and Smith, certainly drew their disapproval. Smith heaps scorn upon the early French (independent) central bank, the Banque Royal, led by the Scot John Law, as “the most extravagant project, both of banking and stock-jobbing, that perhaps the world ever saw” (Smith, [1776] 2005, p. 530). Between the opposite spirits of public service and private profit, Hume not only shows a strong preference for that of public service, but also offers a stern warning against allowing private interests to guide national interests: “There are certain great services which cannot safely be resigned to exploitation for private profit, because the public welfare is so intimately dependent upon them, that those who own them become, in effect, the masters of the nation” (Hume, 1752, p. 15).

Perhaps the deepest disagreement with the position of Bindseil that early public banks were really central banks is how both institutions related to gold. While the early central banks took advantage of the limits of gold for private gain, early public banks substituted gold as money for bank money for social gain, allowing commerce and production to escape the restrictions of gold.

Between Hume’s time and today, public and central banks would both swing between serving public and private interests. Under the gold standard, central banks were able to hide private interests behind the supposedly neutral and natural gold standard. By merely maintaining the gold standard, and the deflation that it inevitably brought, for-profit lending opportunities to dedicatory governments appeared naturally. But as the liberal global order – along with the gold standard – fell, stumbled back to its feet, and then fell again during the first half of the twentieth century, political and institutional balances shifted. The Bretton Woods system reorganized global finance as to favor the public interest of stability in order for productive capitalism to flourish. But there were other elements that socially embedded finance. In the US, the New Deal banking legislation provided decades of financial stability with no banking crises; and a diversity of banking institutions – prominently the Savings and Loans banks – blanketed the country. In orthodox terms, this was a period of “financial repression”. In many peripheral countries, public banks assumed the financing of the establishment of energy and telecommunication infrastructure, basic public services, education and health, etc. In Europe, and also in the global periphery, public banks worked toward conditions of greater financial stability at the service of national social and economic needs.

In Polanyian terms, central banks that had been born independent, became socially embedded – *de facto* or *de jure* – in the wake of the Great Depression and Second World War. The fall of the Bretton Woods system in 1971 was the opening salvo in the disembedding of finance from society and beginning of the end of financial repression. The opening of national borders – financial globalization – along with the return of *de facto* and *de jure* central bank independence, would allow for the emergence of the Dollar Standard, which would replace the gold standard in all important senses (Polanyi-Levitt and Seccareccia, 2016).

Over the period of roughly a century, therefore, central banks, by nature at the service of the market, were turned against their nature to serve the public interest, and then once relinquished of social pressure, could return to their market-serving nature. Public banks followed a parallel but opposite course. By nature servants of the public good, during the period of financial globalization, they were either shuttered or stripped of what made them public. They often came to serve the private interest, always *de facto* and never *de jure*, in several ways. Two prominent ones have been their use as private banks for those close to power in acts of political corruption, and their use as subservient “banker’s banks” by backstopping the assets of private finance.

Alternately, and perhaps even more commonly, public banks stopped serving the public interest by simply exiting the market. The parallel but opposite tracks that public and central banks have taken over the last century can only be made intelligible through a social vision of the market and a theory of the social embedding or disembedding of institutions. As we have insisted, much like humans, society, and money, central and public banks can act more or less in accordance with their nature.

5. The icing on the cake or the return of the ICB: socially disembedded central banking today and yesterday

Returning to our cake metaphor, in this section, we will speak of the icing on the cake. Now that we have defined the two opposing conceptual views of the nature of humans, society, money, and banking, we can see how the two sides interact and how they are conceptually coherent – the icing that unifies the arguments and the overall flavor of the cake. In what follows, we spread the white icing from the bottom layers up towards the top, first discussing wealth and inequality under the lens of Tawney, and then proceeding upward, applying the social criteria of money to the ICB and the Dollar Standard.

As mentioned, current debate regarding ICBs is mostly limited to certain indicators of performance, and treats today's ICBs as if the history had not already lived before. This lack of historical understanding follows a curious interplay between historical changes in its composing factors of ICBs. As the Gold Standard transitioned from *de facto* to *de jure* as well, central banks remained only *de facto* independent. The commitment to protect the smooth functioning of the Gold Standard was an open one. As long as all believed in gold, this goal was rarely questioned. Now that central banks are *de facto* and *de jure* independent as well, the gold question has been eliminated, and the existence of a Dollar Standard is not recognized, as evidenced by Krugman's quote towards the beginning of the paper. With the monetary standard hidden, the nature of the ICB is also hidden; ICBs can be presented with the *de jure* face forward, and the *de facto* face turned, with their explicit policy goal of maintaining price stability masking the real prime directive of upholding the Dollar Standard. Through such deception, the historical connection between the ICBs of the past and the present is easily lost.

We begin with Tawney and the spiritual core of the system, the adulation of wealth:

Institutions which enable a tiny class, amounting to less than two per cent, of the population of Great Britain, to take year by year nearly one quarter of the nation's annual output of wealth may appeal to the emotions of wonder, reverence and awe. One cannot argue with the choice of a soul; and, if men like that kind of dog, then that is the kind of dog they like. But, whatever the sentimental reactions such phenomena evoke, one fact about them is not open to dispute. It is that, so far from being an economic asset, they are an economic liability of alarming dimensions [...] To prize as an economic advantage the arrangements which produce them is not realism, but romance. It is to wear as a talisman a millstone round one's neck (Tawney, 1931, p. 19).

Much as individuals can be easily convinced that their true self is what the market defines it as, societies can also become convinced that the only thing that matters is the economy, and that inequality is in fact good for it. In both cases, orthodox thinking is there to make the argument. From the "horse and sparrows" metaphor of more than a century ago, to the trickle down arguments of half-century ago, today the term hyper meritocracy is used to describe the market mentality that can only see inequality as the sign of individual success in a functioning market led

society, rather than “the mark of the beast” that appears under a social lens. Tawney proposes that “Such societies may be called Acquisitive Societies, because their whole tendency and interest and preoccupation is to promote the acquisition of wealth. The appeal of this conception must be powerful, for it has laid the whole modern world under its spell” (Tawney, 1922, p. 32).

While in Tawney’s time the interruption of human progress was met with the tragedy of world war, today’s tragedy is that we are witnessing not the collapse of an emerging system, but a return to one that had already met with catastrophic failure. A century after Tawney’s writing, finance has again managed to disembody itself from society, and the results are the same: inequality has skyrocketed, democracy has faltered, markets have faltered, and global peace is faltering.

Such a return to darker ages has been accompanied by dark age practices such as a religious like pseudoscience that guides economic life, feudal – like property relationships, and a might-makes-right spirit of material accumulation. It is a return to the *ancien regime* so criticized by Smith shortly before the French Revolution, and punctuated by Tawney during the two stages fall of the Gold Standard and the system of global peace:

Property in capital, thus inflated and emancipated, acquires attributes analogous to those of property in land in a feudal society. It carries with it the disposal, in fact, if not in law, of an authority which is quasi-governmental. Its owners possess what would have been called in the ages of darkness a private jurisdiction, and their relations to their dependents, though contractual in form, resemble rather those of ruler and subject than of equal parties to a commercial venture. (Tawney, 1931, p. 188).

In his later writings, Parguez picked up where Smith and Tawney left off, sharply criticizing the social effects of a predatory monetary system. Parguez placed particular emphasis on the multifaceted consequences of the increasing enslavement of the state to private finance, and shared the same vision of a return to the *ancien regime* (Parguez, 2013, 2018a, 2018b, 2021). Gross social inequality was a sure symptom of social breakdown, both for him and Tawney:

a sensational redistribution of wealth and widespread unemployment as a result of decisions taken “by bankers— the diplomacy of business, like that of governments before 1914, is still commonly conducted over the heads of those most affected by it. The interests of the public, as workers and consumers, may receive consideration when these matters are determined; but the normal organization of economic life does not offer reliable guarantee that they will be considered. Nor can it plausibly be asserted that, if they are not, those aggrieved can be certain of any redress (Tawney, 1931, p. 189).

In societies divided and defined by inequality, democracy becomes ever less plausible. Democracy is to politics what competition is to the market – the social arrangement that comes closest to assuring honest dealing. A greater diversity of competition in both realms allows social and market mismanagement to be corrected. When the market and social mechanisms that check fraud and abuse are removed, the more criminal elements rise to the top of the pyramid, and operating under the “vile maxim” of “all for ourselves, and nothing for other people”, a great rift opens between the top of the social pyramid and those below. Society falls out of balance, and social systems of peace and markets come crashing down, as happened the last time that ICBs dominated the globe. For Polanyi, this is the social disembedding that leads to disaster.

Today’s ICBs that sit atop monopolistic market structures institutionalize such a rift:

Central banks were reconfigured to be “independent” of ministers of finance; they henceforth became instruments for the protection of creditor interests of financial institutions, and

governments became more sensitive to their credit rating than to opinion polls or election results. Contending political parties dance to the same tune. Democracy is now in suspense, effectively hostage to financial markets. (Polanyi-Levitt, 2013, p. 188).

It is difficult to consider a country to be democratic when it has no control over its most important economic institution; rather, it is much more accurately understood as “a private jurisdiction” a point curiously lost an almost all who analyze central banks, but clearly captured by Tawney: “direction and government should be in the hands of persons who are responsible to those who are directed and governed, because it is the condition of economic freedom that men should not be ruled by an authority which they cannot control” (Tawney, 1922, pp. 7-8). Such is the essence of the market submission advocated by Von Hayek..

The *de jure* element of ICBs is the most offensive to democratic ideals, yet the *de facto* element allows ICBs to show their most anti-democratic effects in the market space. Besides wealth inequality, and the less obvious consequences of a society that operates under a shortage of money, socially disembedded markets also suffer consistent crises: “The source of that tyranny is familiar, for it is forced on public attention by the continuous friction, and recurrent breakdowns, of the economic mechanism” (Tawney 1931, p. 171). Such sources of political tyranny are not obvious to most; hidden behind the market in mind and practice, and today like yesterday, “those aggrieved can be certain” of no recourse, and just as certain that the agreeing party is nowhere to be found.

The historical record is fairly clear – newly established ICBs suffer a very high level of catastrophic failure. A century ago, the newly established ICBs in Latin America as a part of the Dawes Plan in the 1920s saw their countries enter into crisis in less than a decade. The *de jure* independent Reichsbank, also established under the Dawes plan, quickly found itself facing the same crisis, and would find a much different resolution than the ICBs of than Latin America.

The second globalization and spread of the ICB advanced hand in hand with the rolling crises of Disaster Capitalism (Klein, 2007), By the turn of the century, the wave of ICBs was well under way in the global periphery:

We tell developing countries about the importance of democracy, but then, when it comes to the issues they are most concerned with, those that affect their livelihoods, the economy, they are told: the iron laws of economics give you little or no choice; and since you (through your democratic political process) are likely to mess things up, you must cede key economic decisions, say concerning macroeconomic policy, to an independent central bank, almost always dominated by representatives of the financial community; and to ensure that you act in the interests of the financial community, you are told to focus exclusively on inflation—never mind jobs or growth; and to make sure that you do just that, you are told to impose on the central bank rules, such as expanding the money supply at a constant rate; and when one rule fails to work as had been hoped, another rule is brought out, such as inflation targeting. In short, as we seemingly empower individuals in the former colonies through democracy with one hand, we take it away with the other (Stiglitz, 2001, p. xvi).

More than twenty years later, what Stiglitz accurately described for the periphery has become true for the center as well, yet the social lens has becomes dusted over from lack of use. The criteria of Hume, Smith, and Tawney is rarely used in contemporary times, yet by employing it, we can formulate five general but key questions to evaluate whether or not a central bank is allowing money to operate according to its nature, and therefore whether the institution is serving the private or public interest of money. Is capital cheap and humans dear? Does money circulate

more than it accumulates? Are interest rates low? Do we have a more competitive or more monopolistic banking system? Do we have a stable monetary system?

6. Conclusions

The last time that ICBs were able to separate themselves from the rest of society, it led to world war and complete global financial meltdown. By obscuring history and the theory that can best explain it, the orthodoxy can successfully present the rising of the ICB from its own ashes as a recent and innocuous innovation that only modifies market behavior. Yet the victory of today's orthodoxy leads us to the same destiny of the victory of yesterday's orthodoxy. As rentier interests separate themselves from the rest of society, they beget masters of the universe, whose superhuman role at the top of pyramids leads them to believe that they are indeed close to the gods, and they begin to act as such, inevitably to the great peril of the rest of humanity. As we have argued, the central bank is the key public institution in both today and yesterday's globalization, and the transition from CBs to ICBs has served as an accurate bellwether in the transition from a more to less civilized capitalism.

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