Monetary Institutionalism in J. R. Commons' Institutional Economics: Sovereignty and Money as Grand Institution Mediating “Engineering Economy” and “Proprietary Economy”

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**Point at Issue**

 It has been argued that the contribution of Commons to economics lies in his theories of going concern and working rule. According to the recent studies of modern institutional economics (Uni 2013, Nakahara 2014), however, his theories have a lot more implications than have been noted in conventional arguments. His concept of “banker capitalism,” for example, could be credited with providing a theoretical framework for money sovereignty（Dutraive et Théret（2013））.

This paper revisits *Institutional Economics,* Commons’ main work, and extracts its theoretical device, which is concerned with his own economic concepts of “engineering economy” and “proprietary economy,” and will be essential for modern institutional economics. These concepts, if simplified according to traditional economics, may be perceived as just sorting out the processes of producing and trading commodities in terms of institutional economics. Careful scrutiny of his arguments, however, will clearly show this perception is wrong. What he intended to demonstrate by using these concepts are as follows: First, changes in “the structure of wealth (value in use)” and changes in “the structure of asset (value in money)” should be treated as conceptually independent in analysis of capitalist economy; second, the capitalist economy which consists of the two economic structures cannot be stabilized without the “institutional régulation” consisting of the artificial evolutions both on the institution of property(which is founded on ownership) and on the institution of money (which makes it possible to measure the value, and to create, negotiate, and release the debt).

This understanding, if understood as in this paper, might well be useful to elucidate the connective relationship of the institutional economics of Commons and modern institutional economics. First of all, we assume that Chapter 8 “Efficiency and Scarcity” and Chapter 9 “Futurity” of Institutional Economics were presented in this connection, and will verify this assumption in the following.

 Our verification will be carried out in the following steps: First, we will sort out his arguments in Chapter 8 “Scarcity and Efficiency” and Chapter 9 “Futurity” of Institutional Economics to verify the above hypothesis. Next, we will sort out the arguments in modern monetary institutionalism to determine how the theories of Commons should be connected and disconnected to modern monetary and sovereignty theories.

1. **Institutional Economic Theories of Commons and Our Perspective**

Before looking into the theories by Commons, we will briefly explain why we are paying so much attention to Commons. It seems that, as the studies of Commons become “theoretical,” not just doctrinal, there have arisen different misunderstandings among theorists. We think it is necessary to revive the insights by Commons now. We will tell you why first.

How and in what way is it significant in modern economics to determine the economic society around “institution” in the first place? Does it mean giving a detailed demonstration, through modeling, that institutions influence and direct the economic causal relationship? If so, “institutional economics” is losing theoretical advantage, as such a methodology is already adopted in neoclassical economics. It is that sticking to such a methodology is tantamount to using institutions just as prior conditions in analysis of economic systems. This is not where we are heading for. We are going in the direction in which the economy and institutions are not divided. In other words, we are aiming to construct an “economic model which consists of institutions as solid theoretical frameworks,” not adding explanations of economic causal relationships through institutions, just complementarily, to models. To reach our goal, it would be necessary to give configurations in which institutions are integrated in the economy.

Thus, to the extent that the theories of Commons analyze the social economy holistically and causatively based on institutions, they go far beyond modern “institutional economics.” We have already found evidence for this in his theory of going concern (Nakahara, 2013). The focus of the discussion was that Commons views all the components of the social economy in the relationship of “the part and the whole,” and comprehends the whole society as a going concern, or a kind of organism[[3]](#footnote-3).

 The feature of his conception of social system lies not in distinguishing between the individual and institution (the subject / the object), but in emphasizing the “relationships” between the whole and those parts which compose the whole in complicated and stratified ways in a given period of time, space, and situation, while paying attention to “their indivisible multi-layered relationships.” Such relationships are repeated and continue in time (e.g. in economic behavior). “Transaction” is an abridged expression for such a relationship, and “going concern” is a collective and ontological expression for such relationships. Here, it is impossible for the individual to decide anything alone. Individuals, subjected to “institutional factors limiting and complementing” those relationships, express their own willingness to each other. Moreover, because they are diverse, their willingness are varied and multi-directional. Necessarily, then, there should be various conflicts and negotiations in their relationships. It is therefore necessary to have “social forces (sovereignty as social authority)” that override individual forces (political relations) to facilitate compromise.

Individuals may be part of one going concern, but when one going concern which consists of individuals is related to other going concerns, they may be part of the whole of those related going concerns. So, every entity can be perceived either as a part or the whole, depending on the perspective. Their relationships cannot be reduced simply into “isolated components of the whole, but should be defined as complicated, multi-layered relationships in and between a plural numbers of the wholes.

Naturally, therefore, Commons doesn’t have any structural “microscopic-macroscopic” concepts of the economic system, which are the mainstream of modern economics. Furthermore, he does not acknowledge that the macroscopic whole is a simple sum or accumulation of behaviors of individuals as microscopic subjects. The latter conception of “accumulative whole,” in particular, lacks the factor of so-called historical time. For that matter, Commons notes the importance of historical time by presenting the concept of “futurity. As will be described in the following, the future course of the whole depends on “what is expected for the future” by the individuals who think for themselves.

This does not mean that Commons ignores individuals. Rather, it could be said that Commons takes into account “individuals as social units,” not independent of each other, more than modern schools of “institutional economics.” To be more exact, he recognizes that the behaviors of individuals (and “institutionalized mind” which determines their behaviors) are influenced (limited or complemented) by various institutions, and concludes that individuals “acts of their own willingness in relation to others.” In this regard, what he conceived may well be regarded as surpassing simple methodological individualism and structuralism.

The next important thing to note is that Commons does not regard economics as just “a science of analyzing economic phenomena.” The “political economics as an economic science” as he defines it is not about setting political and cultural phenomena as external and institutional conditions, and regarding the economy as just responding to those conditions and automatically working. “Indivisible relationships,” which we have discussed before, are also applicable to his methodology of social science. More often than not, modern economists reduce different social phenomena to economic ones. They also take into account other phenomena (as given conditions), but they do not consider them as changeable as economic phenomena. This is not the case with Commons. Of course, he focuses on the economy, but he does not acknowledge “the economy as it is separated from other social domains.” He observes “how economic conditions change when conditions outside of the economy change.” When he discusses the changes in “sovereignty” and “customs” and their importance, he is always aware of the changes in conditions outside the economy of the society – changes in “political regime” and “social contexts.” Among others, the process of holistic “social evolution” is plotted in the theories of Commons, and the evolution of the conditions and that of the economy influence each other. Their evolution has been and will be “organic” through the course of historical time from the past to the future, and it is not possible to isolate and analyze parts one by one, as they are united. Compared to the accumulatively causal relationship, an important concept in evolutionary economics, the theory of social economic evolution by Commons could be understood as constructed in “configuration of organic and indivisible multi-layered relationships in terms of politics, society/culture, and economics[[4]](#footnote-4). Is it possible, in the first place, to construct a theory of evolutional economics which faithfully reflects the reality, with various customs treated as just outside conditions?

It should be noted here that we are not attempting “an escape from economics into politics or sociology.” Rather, we are working to shake off excessively-specialized “parochial economic theories” and to construct “an economic theory which is properly economic, but receptive to contributions from other social sciences.”

Lastly, we discuss some bottlenecks in modern economic theories.

In his *Institutional Economics*, Commons repeatedly criticizes modern economic theorists for sticking too much to the physical aspects of economic phenomena in conceptualizing their causal relationships.” Even so, he does no reject all mathematical analyses of economic phenomena. In fact, as he lived in the age when statistical methods were beginning to rise, he himself repeatedly pointed to great possibilities in them.

Still, he criticizes conventional economists for being obsessed with “physical aspects” in the economic world. What is worthy of note is that Commons clarifies that the economic structure of commodities is based on the principles of efficiency and scarcity and has two aspects: “wealth as value in use” and “asset” based on ownership, and that he treats them as distinct concepts, as will be examined later in detail. He asserts that conventional economists fail to distinguish them and thus incur a number of contradictions. Indeed, distinction between the two aspects could not be comprehended if corporeal property, incorporeal property and intangible property are distinguished, and changes of the entire economy concerned could not be observed without “money,” an institution which makes it possible to represent and measure them. However, modern neo-classical economists try to determine the distinction by *one scale of measurement*, ― use, or *quantity visualized nominally in terms of price*. Using analogies to natural phenomena, they seek *automatic stabilization and equilibrium of quantity,* and mathematical and logical sophistication of the stabilization and equilibrium configurations. Meanwhile, they do not say anything about the institutional essence of money.

More specifically, the economic world constructed on the distinction has two main processes: “physical production process” (“engineering economy” as Commons calls it) and “commodity buying/selling process” (“proprietary economy” as Commons calls it). While they are conceptualized as distinct by Commons, as mentioned before, these economies are established and manifest themselves as “one economic process” via three important institutions: “institution of property” which functions on ownership; “institution of money” which gives order in the buying/selling of commodities in the market; and “institution of law” by which to recognize these institutions.

The reason Commons criticizes previous economists as “physical economists” is this: that they ignore the institutional factors constructed by human beings of their willingness; focus measurable physical things, and “single-layered, mechanical causal relationships” between them; and stick to the principle of equilibrium in which stabilization will be automatically achieved as in the natural world. Indeed, the range of property as an institution has changed in the course of history, and so has money as an institution. In his *Institutional Economics,* Commons meticulously described the burgeoning drastic changes in these institutions in the capitalist economy of his times. It could thus be said that the main argument of Commons is that it is impossible to discuss changes in the capitalist economy without accounting for the existence of and volitional changes in those institutions.

In the next section, we will follow Commons’ line of argument and verify these propositions in detail.

**2. Concepts of “Engineering Economy” and “Proprietary Economy” [[5]](#footnote-5)**

 This chapter begins by defining the concept of wealth by Commons. He gives wealth a double definition: “wealth as physical matter” and “wealth as ownership” (Commons, *Institutional Economics*, p.251). To put it simply, wealth shows the use value of a thing which is representable and measurable in terms of quantity, as well as the monetary value of a thing which is representable and measurable in ownership.

Commons says, “The first essential ownership is scarcity; the collective action of society constructs the rules of exchange of ownership.” (ibid, p. 253) This means that where there is no scarcity, there is no ownership; that transfer of ownership is the basic pattern of acquiring wealth as an asset, represented in terms of monetary value; and that the transfer of the value is coordinated “institutionally” by the collective action of society. He says:

 “We identify property-value with scarcity-value, which we name assets, not wealth; but wealth we identify with use-value which has no scarcity dimensions of supply and demand.” (ibid, p.252)

 By “giving a double meaning to wealth,” Commons identifies two aspects there are to wealth, which has been assumed to be “one thing” or “something that has one value.” Its property-value or asset is assessed according to “the principle of scarcity,” while its use-value or wealth is assessed according to “the principle of efficiency,” not the principle of scarcity. The most important perspective to understand Commons is that those two principles combine to “constitute one economic state”[[6]](#footnote-6). What is his idea about use-value and scarcity-value then? He says:

 “Use-value is wealth produced by labor (manual, mental, and managerial), which, as such, **does not diminish** with a fall in prices, nor increase with a rise in prices. Its variability is its wear and tear, depletion, depreciation, obsolescence, and invention. But **scarcity-value** is prices paid for legal control measured in terms of money. Value itself is **assets**, or the value of ownership; a dollar multiple of the quantity of use-value times the dollar price.” (ibid, pp. 265 – 66 boldface are given by Commons)

 Commons does not intend to find something tangible which support the term of value[[7]](#footnote-7). Instead, he intends to define it as an artificial, “institutional unit” which is quantitatively measurable and variable.

Take a software program for reading PDF files for example. It has the use-value of “reading digitized text.” The more labor (intellectual labor) is “put in,” the better the software program may become and the more efficiently it may be produced (outputted) in larger quantities, depending on the way the managerial transaction (command in the process of production) is carried out in putting in labor. However, Commons considers that improved efficiency is not directly related to the monetary (scarcity) value of goods/service as asset, though it may greatly increase “the output of wealth as use value.” So, labor contributes remarkably to increasing the use value, but it is not directly related to increasing the monetary value. The value is changed by the proprietary economy based on scarcity value, as will be discussed later.

What does Common think is the significance of price, under the concept in which to separate use value and monetary value?

Price is the monetary value determined by the outgo of money for goods/service as asset, not the outgo of money for the use value of physical goods/service. In other words, even if goods/service as wealth has socially important use value, it is not directly to its monetary value. Of course, the total amount of production cost in terms of money (price for the total amount of labor put into production) is an important factor, but the wage consisting of the part of production cost is determined by the way the profit is the type of income distribution in the cooperation concerned and by the volume of profit margin left from the difference between the total outgo and the total income. The way of the income distribution and the volume of profit margin are determined mainly by the principle of “scarcity,” and the power of institutionally structured “collective bargaining power,” not by the principle of “efficiency.”

In a nutshell, what the price of a given item of goods/service represents is the value of its ownership assessed in terms of money, which depends on how scarce the item of goods/service is. It should be noted that the scarcity here involves not only the scarcity due to natural limitations as with natural resources, but also the scarcity due to man-made (artificial) limitations on the supplying goods/service).

In the above-mentioned example of PDF software, the cooperation concerned controls the gap of demand and supply artificially by “withholding or not withholding” its goods/service. In modern times, its sale by ICT seldom involves physical transfer cost, even if it completes the software by large amounts of labor and production costs. Its sale is just “transfer of ownership” (sale of the right of use).

Large amounts of labor and production costs may have been put in, and its value in use may be high. But, if we would not recognize on its details, not demand its’ products (that is to say, without any scarcity), no one could not put it on sale for charge. So, the corporation may well distribute the software program with its function limited (with its value in use limited) free, and later, after it spreads enough to create a potential demand for it to some degree, the corporation put its function no limited on the market for a charge. What it does is exactly to cause scarcity artificially. This is a good example of the proprietary process which, by limiting artificially its supply, the corporation as a seller would realizes a profit on the sale of its product with a certain scarcity value over the its production cost to create the profit margin by performing it.

Next, suppose the price of the software is set up by the corporation as a seller which controls its supply, within “the limitations of price” which will be approved by prospective buyers. Even if the software does not sell well at the established price, it is not necessary for the corporation, which has a large amount of assets, or things of monetary value, to immediately lower the price. The corporation does not need to change the price until its assets run out, as it can afford to endure until buyers come to need the software. There will arise problems of inventory costs, deterioration, and obsolescence with tangible goods/service, but hardly with electronic software. In modern times, incorporeal and intangible property (goods/service) can be found all around, while it could be grasped only conceptually in the age when Commons lived.

However, a monopolistic company like Microsoft Co. in the Operation System market, using its strong market power, may set the price of its product higher than the upper limit of the proper price for buyers, and cause massive losses to the buyers. In addition, such monopolistic company may add its own browser software to its OS product, in order to destroy competitors in the browser software market.

 Commons described, based on historical facts in the United States, how the government agencies such as the Court, the Congress and the Federal Trade Commission had responded against destructive strategy of oligopolistic companies. Commons focused mainly, in the age when concerted economic activities were legally justified, approval of collective bargaining power such as corporations and labor unions, and limitation of bargaining power by rules and laws (Commons, 1934, p. 342).

 More specifically, they were approval of “the corporate form of consolidations, mergers, and holding companies” and development of “the regulative form of fixing maximum or minimum standards for the individual and corporate bargains of buying, selling, lending, hiring, and excluding competition” (Ibid., p. 346). Among the consequences of such a series of institutional change, Commons focused on legal approval "the right to withhold from others what they need but do not own" (Ibid., p. 343). In other words, under certain conditions, it became legal that suppliers of goods or labor acted for limiting their supply.

 As a result, the force withholding the supply became the main foundation of bargaining power. And, "discrimination or unequal opportunity for individual bargaining; fair competition instead of free competition; reasonable price instead of normal or natural competitive price; and equal or unequal treatment of the different kinds of bargaining power , such as that of laborers and employers, farmers and capitalists, etc." (ibid., p. 345) were defined quite clearly by such a series of institutional change.

The scarcity value (= price) of asset due to ownership transfer as Commons defines it changes according to the scarcity controlled artificially by institutional regulation, especially in the modern capitalist economy. Such changes in price will directly occur regardless of the amount of wealth (use value) brought about by various types of input in the process of production. In addition, institutional changes for realizing "equal opportunity", "fair competition", "reasonable price", "equal bargaining power" are neither necessary and logical consequence nor general trend in capitalism. As a result, engineering economy and proprietary economy may develop disproportionally and conflict each other.

For the engineering economy, which consists of input of labor and output of use value from it, the main measurement unit is (the total amount of) use value as wealth. For the proprietary economy, which consists of the acquisition and use of wealth based on ownership ― that is to say, the total monetary outgo and income ―, the measurement unit is (the total amount of) monetary value. The former economy reflects the way transactions are conducted and repeated, and money and goods/service are turning over in the institutional configuration based on the principle of efficiency, while the latter economy does in the institutional configuration based on the principle of scarcity. Commons says:

“From the standpoint of engineering, as such, all human relations take on the single aspect of managerial transactions where there is no freedom for the worker, and the relation, for the time being, is only command and obedience. The total man-power of the nation is the total input, and the total physical control over nature's forces is the total output. But the institutional aspect is the **sharing** of that output and the **inducements** that keep the concern agoing. Two systems of measurement are used, the engineer's man-hour and the business man's dollar.

With this double meaning of wealth — the engineering meaning of output of materials (use-value) and the business meaning of income from ownership (scarcity-value), we are confronted by the very situation that reveals the conflict between business economy〔proprietary economy〕and engineering economy."

(ibid, p.256.〔　〕is given by the quoter.)

 Probably, Commons implies by “the very situation that reveals the conflict …” that the quantitative changes of asset as use-value and those as monetary (scarcity) value do not always and proportionally go on in the same direction; and that *there may be conflicts between those economies*. And this conflict brings about the appearance of who could not earn the income at all or just a little, in other words, of who would not have the ability of payment. He continues to state:

“By efficiency is meant, in terms of managerial transactions, **the rate of output per unit of input**, the man-hour, thus increasing the power over nature but regardless of the total quantity produced. By scarcity is meant, in terms of bargaining transactions, **the rate of proprietary income** from other persons relative to **the rate of proprietary outgo**, measured by the dollar. Inefficiency means a **slower rate** of output per unit of input, but weak bargaining power means a **lesser rate** of income per unit of outgo.
 It is the changes in terminology from production to efficiency, from supply and demand to scarcity, that have been brought about by introducing the **time concepts** of velocity, rate of turnover, visible and invisible supply, etc. The introduction of this time factor makes clearer difference between the two kinds of service rendered to society. Efficiency tends to increase the abundance of goods, or to reduce the man-hour costs, or to reduce the hours of labor. Scarcity distributes the output to those who can pay and withholds it from those who cannot pay, or increases the hours of labor, or reduces the pay to laborers who do not have equal bargaining power.”

 (ibid, p.258. Boldface is given by Commons.)

“… the one [physical use-values] proceeding from collective labor-power, the other [proprietary scarcity-values] from that collective power over individuals which we name institutions. One of these institutions is money, in the sense of *a collective instrument for the creation, negotiability, and release of debt by individuals*.” (ibid, p 278. Italicized by the quoter.)

 Based on this definition of money, the production process is subsumed by credit-debt relationship. For Adam Smith who started from "assumption of individual liberty to produce and acquire wealth", "there was a complete divorce of the theory of credit from the theory of production, for production creates only an exchange-value, and credit has to be started on a different theory". But for Commons, "the theory of production is, at one and the same time, a theory of both production and credit, for production creates a debt on the part of him who acquires the product, and the equivalent credit in behalf of him who delivers the product" (ibid., pp.473-474) .

 In this point, Commons' monetary theory of production is completely disconnected from the production theory of classical economics, who abstracted the credit and money by assuming the stability of the purchasing power of money.

“With the modern development of historical research, and especially with the aid of the modern sciences of sociology, anthropology, and historical jurisprudence, it is possible to reverse the Eighteenth Century illusion of an original state of liberty and reason, and to show the actual but resisted steps by which, out of the practices and aims of subordinate classes, releasable debts became the foundation of modern capitalism. Political economy becomes, not a science of individual liberty, but a science of the creation, negotiability, release, and scarcity of debt” (ibid., p. 390)

In the context of the modern monetary institutionalism, an especially important discussion of Commons is re-examination of G. F. Knapp's concept “pay-community” deployed in Institutional Economics, Chap. 9, and Section II titled “Release of Debt”. Knapp distinguished “private pay-community” formed by the bank and its customers and “public pay-community” which is the State. These two are different in “sanctions by which they enforces upon participants the acceptance and use of that instrument of release” (ibid., p. 461). Public pay-community uses “legal sanctions” of physical force such as legal tender or legal performance. Private pay-community uses moral and economic sanctions, that is, customary tender or customary performance.

 Commons used concepts of “authoritative debt” and “authorized debt”, in a manner to correspond to “public pay-community” and “private pay-community”. Authoritative debts are taxes, that is, “compulsory debts, such as dues, fees, assessments, customs, which the citizen owes, not by reason of bargaining transactions, but by reason of rationing by the State” (ibid., p. 463). Authorized debts are voluntary debts and proper debts which “arise out of persuasion according to rules laid down by custom, common law, or statute”.

 And, for Commons, the relationship between the “public pay-community” and “private pay-community”, in other words, the relationship between “authoritative debt” and “authorized debt” is a question to be solved. Under coexistence of two needs of payment (taxes and proper debts), it is a question which determines more strongly the current means of payment. The answer of Knapp was that the needs for tax payment determined more strongly the current means of payment. In other words, Knapp maintained general principles that “the State, as the supreme “pay-community”, establishes the means of payment by mere fiat” (ibid., p. 466).

 However, Commons answered as follows, after examining historical changes in means of payment of taxes and debts. For him, more important general principle for common means of payment was “the policy of government, whether legislative, administrative, or judicial, with its public purpose” (ibid., p. 465). And, he said that “these public purposes do not turn merely upon the collection of taxes”(ibid., p. 465) and “the general principle is not to be derived from the circumstance of payment of taxes, but from all the circumstances under which a public purpose is deemed by the governing authorities to be supreme over private purposes” (ibid., p. 466).

 In addition, an important consequence brought about by the common means of payment of taxes and debts is income transfer not only between government and citizens but also between citizens, which are caused by institutional changes in laws and regulations that define the means of payment of taxes in “public pay-community”.

 “In all of these cases private property—that is the scarcity-value of private property—was taken from one class of people, either creditors or debtors, either buyers or sellers, and transferred to another class, debtors or creditors, buyers or sellers, by the mere fiat of government in declaring what should be the lawful means of payment” (ibid., p. 466).

 Since this income transfer in “private pay-community” caused by institutional changes in “public pay-community” is a result of giving priority to public purposes, Commons evaluated affirmatively this income transfer. “Its act was a matter of predominant public policy and therefore the merchant was deprived of his property, not without, but with due process of law" and evaluation” (ibid., p. 466). Commons’ discussion on the relationship between “public pay-community” and “private pay-community” was finished here.

 Commons discussed income transfer in “private pay-community” caused by institutional changes in “public pay-community”. Today in Europe, quite contrasting institutional changes is causing a social problem in a larger scale. Although “private pay-community” was integrated, resulting imbalances cannot be corrected because necessary income transfer is impossible under disintegrated “public pay-community”. Since European monetary integration, global current account imbalance between Germany and Southern European countries is expanding, as a result of expanding gap of international competitiveness of export goods. Although the main cause is monetary integration without political integration, secondary causes are wage depression under productivity increases in Germany and wage increase over productivity increases in Southern European countries. As the theoretical discussion of this issue is important for modern monetary theory, we will discuss it in the second half of the next section.

It should be noted that the theory of “money as an institution” by Commons, in which money is regarded as “a collective tool for individuals’ creating, negotiating and releasing debts,” is connected to the theory of “sovereign money” by Aglietta and Orléan (Aglietta　et Orléan, 1998) and the monetary theory by Bruno Théret（Théret,1998）, who all belong to the régulation school[[8]](#footnote-8).

 In view of the above considerations, the following will clarify the similarities and differences between the theory of money by Bruno Théret and Commons’ institutional theory.

1. **From “Monetary Tool Principle” to “Monetary Institution Principle” – “Theory of Money” as Debt**
2. The Social and Totality

Aglietta and Orléan (1998) insist in their preface that society assumes totality from its inception, and that what unites and makes up the totality of society is not equal and free contractual agreement between individuals, but various “social relations” which exist as historical data. These social relations constitute “social binds” at different levels, and relations at one level are subject to the collective values at higher levels[[9]](#footnote-9). Therefore, “collective values are the source of norms which bring order to individual behaviour” (ibid, p.13). These values exist and function as “authority” in the social totality, and without such authority, “social cohesion” would not be realized. To this extent, “authority” is indispensable for maintaining and reproducing the social totality. Consequently, “the political” is incorporated in the structure of the social from the beginning, and can never be separated from “the economical.”

Society has developed the ***registre***of these different social relations through its historical practice. The meta-principle of constructing the relations is “social debt.” The feature of this concept is that human beings benefit from the benefits of the social relations built up in the past, or owe social debts, from the very moment of their birth. The credits against these debts have been represented, differently from era to era, by heaven, earth, deity, ancestry or some existence in this world (something extremely precious, formality, priest, monarch, and money). It is because of their credits that they have authority and legitimacy.

Théret elaborates on this social epistemology and supposes debts as follows: “Debts are nothing other than primitive social binds at the basis of all trades between human beings, and structures behind all transactions, such as exchanges of commodities, donation and counter-donation, taxation accompanying various forms of redistribution. After all, these transactions are nothing but “means of debt creation” (Théret 1998, p.253).

“Structures” which are called “debt of life” and precede all social relations have defined the social through historical processes since the time immemorial. In the modern age, their representations have merely changed from “sacrifice” to “money.”

Therefore, “money is a homogenizing and debt-abstracting operator which will make inter-personal relations free from debts and secularization of debts possible. It enables debts to circulate in a larger space through transfer. Money of account increases the possibility of converting qualitative differences into a numerically-ordered quantitative continuum, and of representing the social totality as an algebraic sum, or an aggregate of homogeneous but differentiated individuals” (ibid p.254).

In the modern world, such a monetary representation of debts brought about separations of debts in two – public and private – dimensions (donation and counter-donation / exchanges of commodities). They respectively manifest themselves in two levels: “the economical debts” and “the political debts”. These are the debts which appear in the topology of “the political” and “the economical.” Economic debts are “debts of the individual to a certain totality,” but not debts which have been passed on in time. They are settled within part of the totality (economic order) and their settlement can be put off to a certain point in the future. So their *valorizations* is possible any time and so they are uncertain. On the other hand, political debts are those which have been passed on in time, but their relationship is reversed: “debts of a certain totality to human beings.” To settle these debts, the sovereign power has to practice “protection of human beings,” that is, “social protection of groups.” This debt confirms the legitimacy of the sovereign power, and the modality of its settlement depends on the form of “institutionalized social compromise.”

However, debts represented by money exist on two levels: public and private. In other words, debts emerge in the form of money just as media for commodity exchange and as saving and insurance on one hand; and in the form of money as social insurance and welfare scheme on the other hand.

(2) Circulation of Money Function Form

Money as a social debt is defined as “*symbolic mediation*,” as mentioned before. Théret makes an assumption about the mode of money as symbolic mediation functioning as a symbol and as mediation in economic circulation (Refer to Théret, 1998, p. 266, Figure 1).

According to the diagram, it is not possible to regard money only as a tool to regulate the economic order numerically from outside. In addition to being such a tool, money functions to “*economically and politically symbolize and transfer*” the credit-debt relations incorporated between actors.

For example, material goods can be perceived physically, and represented in monetary (economic) value, which is numerically perceivable. Still, such goods circulated in economic reproduction are perceivable as capital, which is monetary (economic) value, but they are eventually transformed into physically in-perceivable entities. At this level, capital could not be re-incorporated into the whole process of reproduction, if it were not for money, common symbolical mediation which represents the non-material entity of capital in the social totality. Capital thus represented by money transforms the economic credit-debt relations into the relations between the haves (creditors) and the have-nots (debtors) in the structural chain, which is to say, the politically stratified and represented relations. Here, the credit-debt relations which start as economic relations are transformed into political relations through the meta-mediation of money.

In the transformation process, money is a medium assumed necessary to economically and politically settle public and private “credit-debt relations” always brought about by the social totality. From this assumption derives the following:

“The modern money is a means to pay private debts, particularly wages – private debts incurred by capitalists to workers – and at the same time a means of society to pay debts to all citizens. So, money can be defined in the double relations – mediate and immediate – of the social to the totality. The former is the relation found in referring to the functions of money in the economic order in which money guarantees cyclic reproduction; the latter is the relation of alliance between the political and the economical which lays the foundation for new binds of social protection” (ibid., p.264).

In a nutshell, money, whose function in terms of *Régulation* is to bring social cohesion, forges an “alliance” (a sort of structure) between the political and the economical, while guaranteeing reproduction of the order inside the economical. To put it in another way, “*the function of Régulation by money*” guarantees the system of settling debts, while “*the function of alliance by money*” makes possible mutual transfer of debts between the economical and the political, and defines the boundary of each order. Particularly the latter carries out social regulation through the fiscal / financial regime and the monetary / financial regime. This is because*the collection and expenditure of taxes, which are extremely social and political acts, are nothing other than the forms of political and economic practice which shows that the state has legitimacy in taxation, that is to say, the state has a social debt of protecting its citizens, and of returning that debt to the creditors (citizens)*.

1. **Connections and Disconnections between B. Théret and J. R. Commons**

The monetary theory of Bruno Théret that we overviewed partly connects with Commons' monetary theory and partly disconnects with it.

(1) Definition of money

 　Théret defined money as follows. “Money is a homogenizing and debt-abstracting operator which will make inter-personal relations free from debts and secularization of debts possible. It enables debts to circulate in a larger space through transfer. Money of account increases the possibility of converting qualitative differences into a numerically-ordered quantitative continuum, and of representing the social totality as an algebraic sum, or an aggregate of homogeneous but differentiated individuals” (Théret, 1998, p. 254). This definition can connect the following definition by Commons. “Money is secondarily a medium of exchange—it is primarily a social means of creating, transferring, and extinguishing debts” (Commons, 1934, p. 513).

　In addition, Commons and Théret have similar thinking about debt; “debts are nothing other than primitive social binds at the basis of all trades between human beings, and structures behind all transactions, such as exchanges of commodities, donation and counter-donation, taxation accompanying various forms of redistribution”(Théret, 1998, p.253).

“Historically it is more accurate to say that the bulk of mankind lived in a state of unreleasable debts, and that liberty came by gradually substituting releasable debts.”
(Commons, op.cit, p.390; italicized by the quoter. The same shall apply hereafter.)

“If the merchants’ debts, therefore, were to be made like money they must also be made negotiable. Here another difficulty stood in the way. A promise had been considered a duty to fulfill the promise only to the person to whom the promise was made. It was a personal matter. A promise to work, a promise to marry, cannot even yet be sold to third party. It would be slavery, peonage, or concubinage, under the guide of freedom of contract. But why should not a promise to pay legal tender money, in specified amounts at specified dates, be sold to third parties in exchange for goods, even though the money is not yet in existence? It required not only the Seventeenth Century but all of centuries following to invent ways of making this kind of promise. In the end, the law of “negotiable instruments” became a body of legal arrangements that the mere expectations of money into money itself.” (ibid, p. 393.)

For that matter, Commons confirms that debt is one of the “social institutions,” by stating “… modern anthropologists have actually found primitive societies which do have, for transactions between members, exactly this money of account …” (ibid, p.475)

(2) “Political debt” and “Economic debt”

　A pair of Théret's concepts of “political debt” and “economic debt” is similar to the pair of Commons’ concepts of public pay-community and private pay-community or authoritative debt and authorized debt.

　However, Dutraive and Théret mentioned that these pair of Commons’ concepts “were essentially devoted to the modern money in the narrow sense privileged by the economic theory” (Dutraive and Théret, 2013, p. 102). In addition, regarding the relationship “public pay-community” and “private pay-community”, Dutraive and Théret discussed on the basis of quite different framework from the Commons. According to Commons, the means of payment of taxes and debts were being common historically through the law, but he regarded they can be separated in theory. He thought that, as a result of the common means of payment of these two giving priority to public purposes, institutional changes in “public pay-community” caused income transfer in “private pay-community”. However, Commons evaluated this transfer affirmatively because it was the result of giving priority to public purposes.

　On the other hand, Dutraive and Théret think that “the political community and the commercial community penetrated each other without overlapping completely”. And they think that “competition between the money as means of payment of taxes and the money as means of payment of contractual debts reflects structural conflict between the political sovereignty and monetary sovereignty” (Dutraive and Théret, 2013, p. 106).

« Ce conflit s’exacerbe au fur et à mesure que l’autoconscience de l’homme devient de plus en plus réflexive et que la persuasion remplace l’usage de la force dans le règlement des affaires humaines. Il s’agit là d’un conflit de suprématie entre deux modèles de communautés de paiement dont les principes éthiques (ou finalités) sont a priori antagoniques, ici la reproduction du tout de la société et de ses valeurs et normes constitutives par delà la disparition de ses membres, là l’exigence de liberté de la part d’individus qui postulent à la souveraineté en oubliant que c’est la société en tant que communauté de paiement qui les libère de leurs dettes ou en se leurrant sur le caractère libérateur de la monnaie bancaire »( Dutraive and Théret , 2013, pp. 106-107).

　For Commons, an important general principle of common means of payment of taxes and debts is giving priority to “the policy of government, whether legislative, administrative, or judicial, with its public purpose” (ibid., p. 465). However, Dutraive and Théret propose the following two models of capitalism, based on the above structural conflict between the political sovereignty and monetary sovereignty. The first is “reasonable capitalism” such as Commons described. In this model, public purposes have priority over private purpose, and monetary sovereignty “is placed under the authority of society, that is, under the authority of common social values and constitutive customs” (Dutraive and Théret, 2013, p. 107). The second model is “unreasonable bankers’ capitalism” from the viewpoint of Commons, where private purposes have priority over public purpose, and the promotion of money to sovereign authority tends to be embodied in the financial power dominating administrative, legislative and judiciary power of the state" (Dutraive and Théret, 2013, p. 108).

 **Conclusion Remark**

 Referring to the analysis by Théret as mentioned above, we would like to analyze today's European situation from the viewpoint that is nearer to Commons. Commons examined income transfer within the“private pay community”　caused by the institutional change in the public pay community. However, we consider that the institutional change that is symmetrical to Commons’ case causes a social problem in a larger scale in today's Europe. In other words, we think, the critical problem of today's Europe is that "public pay communities" has not been unified although "private pay communities" were unified. Because of this, an income transfer necessary for correction of imbalances is impossible.

 When we pay attention to the current account in the euro-zone countries after the mid-1990s, deficits increased cumulatively in Greece, Spain and Portugal until 2008 while the surplus of Germany increased cumulatively. In the usual case, the current account deficit is offset by the capital account surplus. Actually, in the early stage, the current account deficit was financed by the continuous private capital inflow into the Southern European countries from the late 1990s. This private capital inflow included direct investment to manufacturing industry, and it contributed to the industrial development in the Southern European countries. However, the private capital turned to outflow from 2008 when the Lehman shock happened, and this private capital outflow from the Southern European countries increased after the Euro crisis in 2011. It is a change in TARGET Balances in the ECB that financed the current account deficits in the Southern European countries instead of the escaped private capital[[10]](#footnote-10). In TARGET2 which is the payment system of the euro-zone, TARGET Balances are formed between ECB and each country's central bank, and these sovereign debts increase automatically in the countries from where the private capital escaped. As an example, in TARGET Balances, the total debts of the following five countries; Italy, Spain, Portugal, Greece and Ireland, increased rapidly from -110.8 billion euro in the end of 2008 to -813.5 billion euro in the end of 2012[[11]](#footnote-11). The total private capital inflow to these five countries from 2003-2008 was 900 billion euro, but the most of it had outflow by 2012. In contrast, in German TARGET Balances, credit was piled up from 115.3 billion euro in the end of 2008 to 655.7 billion euro in the end of 2012. Even in the end of 2015, TARGET Balances of the five countries mentioned above was -662.1 billion euro, and Germany had 584.2 billion euro credits. Most of imbalances in TARGET Balances have not disappeared.

 This cumulative imbalance in TARGET Balances is a result of a structural defect in the system design called "monetary integration without political integration". We may well-understand this defect by imagining monetary integration with political integration. In the inside of the politically integrated community, principle of equal pay for equal work and common working conditions would become general standard. The integrated government would subsidize regions or industries where these general standards cannot be realized because of low productivity due to technological or structural reasons. In other words, through integrated taxation-fiscal system, a part of income is transferred from technologically or structurally strong regions or industries to weak ones. Through this income transfer, even if there are differences in productivity between regions or industries, equal competitiveness in some extent will be maintained with equality in wage and working conditions. Such integrated taxation-fiscal system for income transfer is necessary for realizing "equal opportunity", "fair competition", "reasonable price", "equal bargaining power" that Commons emphasized.

 However, in the monetary integration without political integration realized in Europe, movement to equalization of wages directly leads to expansion of gaps in competitiveness and current account imbalances between countries. This is because there is no correction mechanism by the taxation-fiscal system and the former correction mechanism by the exchange rate adjustment does not work. For example, after the monetary integration, in Germany, the wage increase was restrained lower than the productivity increase rate, on the other hand, in the Southern European countries, the wage was raised more than the productivity increase rate. However, such cross-border equalization of wages is natural after the liberalization of cross-border movement of the labor force.

 These actual unsustainable cumulative current account imbalances may request Europe to reform fundamentally the system design called "monetary integration without political integration". After the euro crisis, several institutional reforms are implemented, such as the establishment of the European Stability Mechanism (ESM), and the establishment of the Bank Union consisting of the Single Supervisory Mechanism, the Single Resolution Mechanism and Deposit Guarantee Scheme, but they are partial reforms far from full-scale political integration or taxation-fiscal system integration. In addition, European Commission began to watch budget deficits, wage increases and productivity increases, in order to prevent macroeconomic imbalance and to correct it. Moreover, European Commission can enforce corrective actions to deviating countries. However, these new institutions have little effects for upgrading industry and enhancing productivity in the stagnating Southern European countries, because the fiscal expansion policy is prohibited. As a result, gaps in wages and working conditions between the euro-zone countries do not shrink but are more likely to spread. In other words, the euro-zone is likely to be bipolarized in the real-economy side, although it was unified in the monetary side.

 In order to solve such a problem, it is necessary to construct a theory that can analyze institutionally structural relationship between public pay-community and private pay-community, based on these original logic and dynamics. Such theory can suggest what sort of institutional reforms are necessary. As a base of such theory, the monetary theories of Commons and Théret may be useful, as they approached the relationship between public pay-community and private pay-community and the relationship between political sovereignty and monetary sovereignty.

**Additional notes**

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3. Refer to Commons (1934), *Institutional Economics*, chapter 8, “Efficiency and Futurity”, section IX, “Society”, 2. “The whole and Its Parts,” [↑](#footnote-ref-3)
4. Such a method of social science could be considered similar to the configuration of “Five Institutional Forms” of régulation theory. Refer to Nakahara (2013) for similarities and differences between régulation theory and Commons’ institutional economics. [↑](#footnote-ref-4)
5. Commons’ *Institutional Economics* (Volume II) is to be translated jointly by Hiroyuki UNI, Shingo TAKAHASHI, and Kouta KITAGAWA and published by Nakanish-ya Shuppan in the spring of 2016. This section has been written in reference to the draft of the translation. I would like to express gratitude here to them (the responsibility for errors which might occur here in quotations should go to the quoter). [↑](#footnote-ref-5)
6. It seems that Commons assumed that the principles of “futurity,” “custom,” and “sovereignty” in addition to these two principles work restrictively and complementally, though it is necessary to closely examine if they were fully reflected in his theory. [↑](#footnote-ref-6)
7. Commons said: “This compound meaning of Value is neither nominal nor real. It is statistics and accountancy. It does not answer the question, what is really or truly valuable according to our notions of ultimate reality. It is only a customary formula of two highly variable magnitudes, use-value and scarcity-value, combined in another highly variable magnitude, Value. This meaning of Value therefore turns only on the practice of measurement, and measurement is not ultimate—it does not tell what is really true—it is only the language of number in terms of artificial units not found in nature but put there by collective action to facilitate transactions.” (ibid, p. 266, capitalized by Commons) This definition could be understood to be really reflective of Commons’ “pragmatic” view of institution. [↑](#footnote-ref-7)
8. Here we review Chapter 8 “Efficiency and Scarcity” of *Institutional Economics.* In the following Chapter 9 “Futurity,” Commons fully discusses the institutional role of money in the proprietary economy and its model of turning over. [↑](#footnote-ref-8)
9. These values are stratified into relations “between man and woman,” their superior relations between “husband and wife,” still superior “family” relations, “community” relations, relations comprehended by “the civil rights”, and eventually the most comprehensive “society.” The higher the value is, the higher its social totality is. [↑](#footnote-ref-9)
10. The public financial support by the "Troika" (EU, IMF and ECB) also played a role for financing these countries' current account deficits. But, quantitatively, the change in TARGET Balances is greatly larger than it. [↑](#footnote-ref-10)
11. TARGET Balances, *Statistical Data Warehouse*, European Central Bank, (http://sdw.ecb.europa.eu/reports.do?node=1000004859) [↑](#footnote-ref-11)