Money, Moral Authority, and the Politics of Creditworthiness
Simone Polillo

American Sociological Review 2011 76: 437 originally published online 10 May 2011
DOI: 10.1177/0003122411407737

The online version of this article can be found at:
http://asr.sagepub.com/content/76/3/437

Published by:
SAGE
http://www.sagepublications.com

On behalf of:
American Sociological Association

Additional services and information for American Sociological Review can be found at:

Email Alerts: http://asr.sagepub.com/cgi/alerts

Subscriptions: http://asr.sagepub.com/subscriptions

Reprints: http://www.sagepub.com/journalsReprints.nav

Permissions: http://www.sagepub.com/journalsPermissions.nav
Money, Moral Authority, and the Politics of Creditworthiness

Simone Polillo

Abstract
This article moves beyond current controversies on the nature of money by suggesting that a general social process allows different kinds of organizations and networks—from states to banks to local communities—to produce currencies: that is, the articulation of criteria of creditworthiness, or what I call the exercise of moral authority. Bankers specialize in moral authority, but when that authority is contested, challenging groups must articulate alternative criteria of creditworthiness for their currencies to become stable and acceptable. I illustrate these processes with historical material from the postbellum United States, which I use to discuss why the federal government failed to create a stable financial system, and why local bankers engaged in a process of financial innovation that further destabilized money. I conclude with reflections on the shifting structural sources of moral authority, which have made the local level a springboard for destabilizing financial innovations.

Keywords
money and banking, creditworthiness, conflict, postbellum United States history

For a good part of the twentieth century, sociologists did not give money much attention. After Simmel’s important treatise, money did not disappear from our theoretical vocabulary altogether, but it became more a metaphor of other processes—as in Parsons’s theory of generalized media of exchange, or Bourdieu’s conceptualization of economic capital—than a phenomenon with properties of its own. This state of affairs dramatically changed with the theoretical breakthroughs of two theories that emerged during the past 25 years: state-centered neo-charteralism (SC-NC) and circuit-centered micro-sociology (CC-MS). However, proponents of these two theories have been embroiled in intense controversy over the most appropriate and effective way of conceptualizing money (Fine and Lapavitsas 2000; Ingham 2001; Zelizer 2000). For the most part, they have thus ignored an aspect that has obvious implications for a general understanding of how money works.

This aspect of money is that it comes in the shape of differentiated financial instruments and monetary media, circulating in official credit and financial markets and created by specialized actors—mainly, although

*University of Virginia

Corresponding Author:
Simone Polillo, Department of Sociology, University of Virginia, 559 Cabell Hall, PO Box 400766, Charlottesville, VA 22903
E-mail: Sp4ft@virginia.edu
not exclusively, bankers. Because they assert that money is a means of commensurability enforced by the state, SC-NC theorists have downplayed how financial assets are stratified and differentiated as they are exchanged in the context of existing social relations (Collins 2000; Tilly 1998). But the state’s efforts to control and manage money as a homogeneous currency are often challenged by the proliferation of financial instruments, and theories of money should reflect this (Bryan and Rafferty 2007). CC-MS theorists focus on the personalization of money by its users, as well as the creation of new currencies when individuals are faced with the necessity of managing delicate social relations. However, we cannot understand financial instruments as local currencies in the way that micro-sociologists do, because these instruments originate in specific institutional arenas (e.g., the banking system) characterized by dynamics, conflicts, and strategies of their own. The disagreement between SC-NC and CC-MS on the nature of money, which proponents of both theories insist is insurmountable but crucial, is of lesser sociological interest than the problem of how multiple sources of monetary and financial instruments are brought together into stable financial systems, and how that stability is reproduced over time.

The main argument of this article is that a general mechanism explains what sustains (and thus reproduces) money as a system in which multiple financial instruments are made comparable. The goal is to flesh out this general mechanism, which I call the institutionalization of creditworthiness. By creditworthiness, I mean the set of rules and criteria that delineate the boundary between those who are worthy of holding a particular currency and those who are not. Creditworthiness, I argue, is institutionalized through moral authority: the elaboration and setting of moral categories of worth that draw on membership and solidarity, in Durkheim’s (1995) sense, and are then enforced by specialized agents or authorities.

After discussing SC-NC and CC-MS and then presenting my critique based on the concept of money as creditworthiness, I offer an empirical discussion of two attempts to create homogeneous and stable currencies in the postbellum United States based on new categories of creditworthiness. First, I look at the attempt, initiated by the federal government but then taken up by other social groups, to build reputable paper money (greenbacks) on the basis of government debt, rather than on a promise that the money was convertible into specie. The attempt failed because the government revived older criteria to establish creditworthiness (it rejoined the gold standard) instead of assuming control over management of new financial rules. The government failed to articulate new rules because it did not have the support of bankers. Second, in the 1870s, local banking elites attempted to gain access to Wall Street’s financial networks by extending call loans. This, in turn, destabilized the categories of creditworthiness that New York financial elites were struggling to establish. In both cases, initiators of the process of monetary reform were unable to articulate consistent categories of creditworthiness to which other actors were willing to submit.

The article concludes with a few reflections on the shifting sources of authority in the production of money. I argue that, paradoxically, expansion of the financial system in the past 40 or so years has made local sources of authority and instability more powerful than top-down processes of homogenization. This is because states lost some of the power they had, especially during the Keynesian period, to draw distinctions among individuals worthy and unworthy of credit along relatively consistent dimensions, such as employment. Money is moving in a diametrically opposite direction than that emphasized by Simmel, Marx, and contemporary proponents of the thesis that money is a paradigm of commensurability, precisely because it is becoming more local.
MONEY AS MONEY-OF-ACCOUNT: THE STATE-CENTERED, NEO-CHARTALIST (SC-NC) THEORY

SC-NC has a long pedigree. It roughly begins with Knapp’s (1924) claim that money is, first and foremost, money-of-account. After a long hiatus, the theory recently has witnessed a remarkable revival, especially in sociology and heterodox economics (Bell 2001; Goodhart 1998; Ingham 1999, 2001, 2004; Wray 1999). The theory tells a fundamentally different story about money than does mainstream economics.

Since Adam Smith (1976), economists have argued that the nature of money is that of a common medium that individual participants in market exchange agree upon out of convenience (Jones 1976; Menger 1892; Schumpeter 1994). SC-NC theorists reject this argument outright (Innes 1913; Smithin 2000). Money is a collective process, they argue, backed by an authority that establishes a system of accounting for value, which all those who are subject to the authority then have to accept. The logic of this argument is that, much as we measure distance with reference to an abstract system (e.g., the metric system) and do not expect it to vary depending on the specific ruler we use, we should define money by virtue of its abstract nature as a measure of value, not in terms of the actual forms it takes (Innes 1914). The “primary concept of a Theory of Money” is money-of-account, to quote Keynes (1930:1).

The emphasis on money as money-of-account naturally leads to questions about the authority that underlies it. In fact, for money to arise out of simple convenience, private agents would have to agree to a common standard of accounting for value. But as self-interested agents, they would be irrational in not privileging whatever good they were most endowed with (Ingham 1996), thus undercutting the very possibility of a common standard. Simmel (1990) provides a useful alternative account, one that points to collective processes. He argues that money is “a bill of exchange from which the name of the drawee is lacking, or alternatively, which is guaranteed rather than accepted.” Crucially, money is dependent on a “third factor [that] is introduced between the two parties [to an exchange]: the community as a whole, which provides real value corresponding to money.” Money becomes “a relationship with the economic community that accepts the money”; money is thus “minted by its highest representative. This is the core truth in the theory that money is only a claim upon society” (Simmel 1990:177).

By pointing to the nature of money as a “claim upon society” in units of account set by its “highest representative,” Simmel effectively introduces the role of a collective authority, rather than the spontaneous coordination of private actors, in the production of money. He suggests none other than the modern state as the strongest expression of monetary authority. But the nature of that authority is more specific than what Simmel has in mind. It is, according to SC-NC, fiscal, or “chartalist.”

The nature of modern money is chartalist, to use Knapp’s term (1924), because it is a token claim to value that the state denominates in a unit of its choosing and enforces on others through fiscal policy. What matters to money is that it is denominated in the monetary units prescribed by the state, or, as Keynes (1930:4) puts it: “money-of-account is the description or title and the money is the thing which answers that description. . . . [The state] claims the right to declare what thing corresponds to the name.” In modern capitalism, whatever currency the state asks its citizens to pay taxes in, that currency is money.

As a consequence of its emphasis on money’s fiscal origins, the SC-NC perspective plays up the coercive aspect of state power: its ability to levy taxes. To be sure, the state’s
legal system can enforce the acceptance of legal tender, but it is ultimately the state’s fiscal capacity that grounds the monetary system (a point clearly articulated by Knapp; see also Lerner 1947). Moreover, because the money issued by the state acquires liquidity within the state’s political boundaries, it also serves as a reserve for the private issue of monetary and non-monetary instruments (Wray 1999). The money of the state thus becomes the most desirable and safest in a hierarchy of money because it is the currency that is most acceptable and most liquid (Bell 2001).

As with the neo-Weberian, fiscal–military model of state formation in political sociology (Collins 1999; Mann 1993; Tilly 1992), SC-NC locates the source of the state’s monetary power in its legitimate monopoly of violence. Much like the fiscal–military model of state power has been criticized for its one-sided attention to coercion, a similar critique can be leveled against SC-NC. It is not that coercion is irrelevant to authority over money and state power. But coercion is an effective form of authority only to the extent that it works in conjunction with other social processes (Centeno 2002; Gorski 2003; Steinmetz 1999). More specifically, there are multiple sources of authority, and multiple ways of exercising it, springing from bottom-up and top-down processes (Ertman 1997). Those SC-NC theorists who privilege the coercive imposition of fiscal obligations as the only source of monetary power (in particular, Wray 1999) thus have too narrow a perspective. Because the state has important responsibilities in ensuring money’s stability, and because it mediates the struggle for economic existence that different groups wage through money, whether the state is perceived as a legitimate mediator of those conflicts is crucial (Ingham 2004, drawing from Weber). For instance, the state cannot change its fiscal policies at will: the state’s budget is a site of intense struggle, and checks on the expansion of the state’s balance sheet are also checks on the balance of social power within society (Campbell 1993; O’Connor 2001). The mechanism that SC-NC proposes (i.e., the budget) leads to a successful outcome (i.e., stable money) only if the state has legitimacy.

More sociologically oriented analysts of the economy have resorted to what we may call a soft SC-NC. Ingham (2004:143), in particular, argues that the “linkage between state spending, taxes and bonds in the capitalist system” is political and ideological, something that strong SC-NC theorists have missed: “the stability of any settlement is greatly increased by its legitimization in terms of economic principles and practice.” Here, Ingham explicitly mentions “principles of sound money.” He continues, “ultimately, the political balance of these economic interests that the state is able to forge is concerned with checking its arbitrary power and establishing its creditworthiness—that is, its ability to pay its debts.” Seabrooke’s (2006) analysis is also exemplary in this respect: it uses the notion of legitimacy to explain how elite and non-elite actors agree to entrust the financial system with their assets. In this formulation, legitimacy is a matter of individuals consenting to institutional control because it is congruent with their economic social norms. This focus on norm-driven and legitimate behavior, however, sidesteps the issue of unreflective, routinized compliance with institutional arrangements that often characterizes political life (Collins 1981; DiMaggio 1988; Powell and DiMaggio 1991). The risk is that the importance of economic norms is overstated. One must account for moments when legitimacy is in question, and thus for conditions under which the mobilization of new sources of authority becomes possible. This cannot be done by paying attention to individual action, because the setting and policing of boundaries are essential to how individual action is defined in the first place, and these are collective, not individual processes (Abbott 2001). A similar criticism can be leveled at Ingham’s claim about the legitimacy of the state in
the face of financial elites: a focus on formal rules and principles sidesteps the issue of what makes these rules binding in the first place (see Stasavage [2002] for a similar critique of North and Weingast [1989]).

In summary, SC-NC relies excessively on centralized coercion and central authority to explain how states impose a money of their choosing on their subjects. More sociological, soft versions of SC-NC introduce notions of legitimate authority to explain how the state’s grip on money is reproduced. But because their focus remains on the relations between center and territory, mediated by economic norms, even soft SC-NC analysts do not pay attention to alternative sources of money. The circuit-centered, micro-sociological theory of money (CC-MS), because it questions the assumption that any centralized authority will have full control over the monetary process, serves as a critical counterpart, much like the new wave of political sociology better defines the scope and strengths of the fiscal–military model. CC-MS critics reveal that money is, in fact, produced in multiple sites by multiple actors.

**MONEY AS MULTIPLE CURRENCIES: THE CIRCUIT-CENTERED, MICRO-SOCIOLOGICAL THEORY (CC-MS)**

In truth, the micro-sociological approach to money seems to fight a different battle than the state-centered theory. CC-MS theorists take on the sociological commonsense about the relationship between money and social structure to which Marx and Simmel were crucial contributors: namely, the idea that money—the “cold cash nexus”—might not corrupt outright, but it certainly imposes radical changes on society, changes that the social structure must passively accommodate and adapt to. The CC-MS critique of this argument is inevitably an indictment of SC-NC’s money-of-account theory, which privileges one kind of relation—the fiscal bond between state and citizens—over other forms of authority. Especially in later formulations of CC-MS, the incompatibility with SC-NC is played up.

Several theories argue against the money-overpowers-society approach to money (Caruthers and Espeland 1998; Maurer 2006), but Zelizer’s (1994) stands out for its bold claim that we can understand money only if we focus on actual social practices. Through social practices, in fact, people constantly transform or earmark money. Zelizer shows this in a series of empirical studies of the uses of money, focusing on the creative ways in which individuals opposed the strenuous efforts of the U.S. federal government in the postbellum period to create a homogeneous, national currency. Zelizer (1994:17) notes how “the forms of monetary earmarking multiplied just as official money became more uniform and generalized.”

Systematic analysis of the ways social relations affect money yields a startling conclusion: modern money is special-purpose, its use is restricted by normative and cultural constraints. The fact that it takes multiple forms and shapes is money’s core aspect. Development of more formalized kinds of money, therefore, does not deprive social relations of their meanings and context: in fact, money is always invested with local significance in and of itself. When its previous, specialized purposes are questioned, individuals engage in frantic efforts to create new distinctions congruent with the social relations at hand. U.S. families at the turn of the twentieth century, for instance, engaged in heated arguments about whether women’s newly elevated and more emancipated status required a reworking of the elaborate and humiliating system through which male breadwinners administered doles. With the entry of more women into the formal labor market, how to classify women’s wages became a source of conflict and debate. (Was this pin-money? For what purposes could the wages be used?) In short, where
Marx and Simmel would have seen homogeneity, equivalence, fungibility, and fetishism, Zelizer found nuance and differentiation. Because different social groups will invariably invest money with local meaning, money’s uses will be restricted to acceptable goals, its alleged fungibility broken into multiple, nontransferable currencies.

While this early part of the theory is most directly concerned with uses and meanings of currencies, Zelizer’s later work, in a dialogue with Collins (1995, 2000) and Tilly (1998), sketches a model of circuits of commerce that systematizes and generalizes her perspective. In this more comprehensive formulation, money is not simply modified through use, but emerges from the coming together of three components: a set of bounded social relations that are demarcated from relations with outsiders; a set of meanings and practices attached to these relations; and a distinctive kind of media that circulates within the circuit and attaches to these relations (Zelizer 2010; Zelizer and Tilly 2006). A variety of examples share such features, including migrant remittance networks, rotating credit and savings unions, and local currencies and microcredit schemes (Zelizer 2000, 2005). Tilly (2004:5) groups these circuits under the term “trust networks” (see also Zelizer and Tilly 2006). Collins (2000) adds that these circuits of commerce are crucial vehicles of inequality: they make up the empirical reality of social classes, not as a totem pole of stratified categories, but as partially overlapping circuits that hoard opportunities and command market chances through the production of currencies that only their members can hold (see also Tilly 1998).

Both concepts of circuits of commerce and trust networks point to the importance of bottom-up strategies of resource accumulation, social exclusion, and integration, which members of these networks regulate through the production and control of exclusive currencies. This is a healthy rejoinder to SC-NC with its top-down fixation on money-of-account. But an exclusive focus on the practices and social classifications that individuals apply to money, depending on the networks to which they belong, in some important sense reduces the institutional structure of money to insignificance. If money can be produced locally, because it is a symbol of the trust that characterizes particular circuits, what role can institutions external to those networks play other than, at best, a regulatory one? Can institutions ever be constitutive of money, as SC-NC theorists argue, when money’s empirical reality is one of differentiation and segregation in social networks that strictly police where currencies will circulate?

As a consequence, just as local processes of monetary differentiation are a blind spot for SC-NC’s theory of money, forcing theorists to resort to notions of legitimacy, the origins and reproduction of general-purpose money, that colorless, neutral money that much preoccupied Simmel and Marx, is a blind spot for the CC-MS perspective, forcing these theorists to resort to an ambiguous notion of a market-money against which people resist. The fact that some general-purpose moneys exist alongside more localized currencies is apparent to CC-MS scholars, but the focus on how individuals change general currencies to adapt them to the meanings of the interactions at hand brackets them off, as if generalized currencies were asocial. Zelizer (1994) often refers to general-purpose money as market-money, but this is misleading, because it suggests that the origins of the rational money that individuals react against is outside the scope of sociological analysis (Ingham 2001). Emphasizing how general currencies (e.g., state-minted cash) are just as divisive as local currencies will not do either (Zelizer 2000), for there are vast institutional differences between, say, a migrant remittance network and a financial system with a central bank at its center, which a focus on divisiveness simply misses.

In summary, state-centered, neo-chartalist (SC-NC) theorists point to different agencies behind the production of money than do
circuit-centered, micro-sociological (CC-MS) theorists. SC-NC theory finds in centralized processes of fiscal extraction the source of authority that, from its view point, is essential to make an abstract money-of-account: the authority of the state. The authority of the state makes money homogeneous and uniform. As a result, SC-NC theory has trouble dealing with monetary media that do not originate with the state. CC-MS theorists point instead to the bottom-up group processes that underlie the production of money as a set of different and segregated currencies: social relations thus have priority. This makes money differentiated. As a result, CC-MS theory has trouble dealing with the institutional framework that makes money possible.

Some theorists argue (while providing an account of money of their own) that these two perspectives are not incompatible, and that it is simply a question of analytic taste whether differentiation or homogeneity is played up (Fine and Lapavitsas 2000). I suggest that, while this is certainly possible, the more important questions are how differentiated currencies are created within the same money-of-account, and under what conditions differentiated currencies impact the money-of-account. At issue, then, is not the ontological status of money (Dodd 2007), but the social conditions for its empirical existence.

As soon as one broadens the discussion of money to consider credit and financial markets, one cannot help but notice that differentiated financial instruments denominated in the same money-of-account make up a large proportion of money (Bryan and Rafferty 2007). Yet the tools of SC-NC and CC-MS do not give us a good grip on the processes that make the coexistence of these different instruments possible within the same framework. In the next section, I argue that a sociology of bankers that focuses on their relationship to creditworthiness fills this gap. I claim that even though there is enormous variability in financial systems, a common goal characterizes them. This common goal is the consolidation of criteria through which the creditworthiness of debtors and, more generally, users of money is established; and the reputation of the issuers of money is similarly affirmed. Thus, local circuits differ from states in the ways they institutionalize creditworthiness, which is revealed by the extent to which bankers are implicated in their respective financial politics.

MONEY, BANKING, AND CREDITWORTHINESS

To understand the relationship between bankers and creditworthiness, I must begin with a useful definition of banking. A readily available one is that bankers are the specialized actors who remove resources from production to redirect them to new uses. In Schumpeter’s (1911) terms, bankers are the headquarters of capitalism, and financial instruments are the tools with which they carry out their activities. Rather than simply specializing in intermediation, as some economists argue (Allen and Gale 2000; Diamond 1984), in this definition bankers incessantly create money through the lending process (Minsky 1986; Moore 1988; Schumpeter 1911). Bankers do not accumulate an adequate deposit or reserve of money before lending it out. As Wray (1999:107) puts it, “no officer ever checks the bank’s reserve position before approving a loan.” Rather, money is an ex nihilo accounting operation, a balance-sheet expansion: it is a simultaneous act of crediting the client’s account (thus creating a liability for the bank) and crediting the bank for the amount of the loan (thus creating an asset for the bank) (Innes 1914). The logic of credit is that the value of the loan will be repaid in the future while generating interest (Ingham 1996); that is, the balance-sheet expansion will be validated.

Discussion of the nature of loans highlights two sources of uncertainty. First, any banking operation has a fiduciary character: the value of a loan is always uncertain
because it is dependent on future economic activities (Ingham 2001; Minsky 1986). This implies a judgment of creditworthiness (Carruthers and Ariovich 2010). Bankers must be able to predict the likelihood that a debt will be repaid. Information-asymmetry theories of finance (Akerlof 1970; Diamond 1984; Stiglitz and Weiss 1981) thus argue with Schumpeter (1939:166) that the banker “must not only know what the transaction is which he is asked to finance and how it is likely to turn out, but he must also know the customer, his business, and even his private habits, and get, by frequently ‘talking things’ over with him, a clear picture of his situation.”

Creditworthiness, however, cuts both ways. A bank must build a reputation for itself before borrowers and creditors will decide to do business with it. This second source of uncertainty is highlighted by the evolutionary/reputational perspective in monetary economics, espoused most notably by Goodhart (1988) and Smithin (1994) and going as far back as Bagehot (1920:232–33):

An old-established bank has a “prestige,” which amounts to a “privileged opportunity”; though no exclusive right is given to it by law, a peculiar power is given to it by opinion. . . . [T]he main source of the profitableness of established banking is the smallness of the requisite capital. Being only wanted as a “moral influence,” it need not be more than is necessary to secure that influence.

The business of banking can be radically redefined as the business of building reputations. Banks use their capital, which mainstream theories consider a pool of money from which banks withdraw cash to finance their operations, as a moral influence they can wield by controlling opinion.10

Both the fiduciary and reputational aspects of banking, in short, highlight the fact that banking depends on the imposition of a distinction between individuals who are to be trusted with certain kinds of loans and financial instruments, and those who are not worthy of trust (Tilly 2005). The more a bank succeeds in drawing an effective boundary, the more reputation it gains for itself, the less capital it needs as reserve, and the more profit it can gain. It is thus reasonable to argue that creditworthiness is a matter of knowing where to draw that boundary (Guseva and Rona-Tas 2001). But this does not mean that the criteria governing the assessment of creditworthiness can be abstracted from the social context to which they are applied. Precisely because credit can only be validated in an uncertain future, a successful banking strategy is to become the gatekeeper and enforcer of existing boundaries, rather than acting as Schumpeterian “headquarters of capitalism” and authoritatively assigning funds to projects with the promise of the highest return. Creditworthiness may thus be conceptualized as a system of incorporating distinctions that already exist outside of the banking system, between individuals worthy of particular kinds of instruments and those unworthy of them.

This idea, paradoxically, is put in a slightly different form by Schumpeter (1939:117) himself, when he points out that to be a banker, it takes “not only highly skilled work, proficiency in which cannot be acquired in any school except that of experience, but also work which requires intellectual and moral qualities not present in all people who take to the banking profession.” Tellingly, Schumpeter offers this proposition in the context of a discussion of speculation:

In the case of bankers, however, failure to be up to what is a very high mark interferes with the working of the system as a whole. Moreover, bankers may at some times and in some countries, fail to be up to the mark corporatively: that is to say, tradition and standards may be absent to such a degree that practically anyone, however
lacking in aptitude and training, can drift into the banking business, find customers, and deal with them according to his own ideas. In such countries and times, wildcat banking—incidentally, also wildcat theory about banking—develops. This in itself—whatever the legal rules about collateral and so on may be—is sufficient to turn the history of capitalist evolution into a history of catastrophes.

Schumpeter introduces the important idea that there is a morality to banking that is not simply one’s commitment to ethics and refusal to commit fraud, but an ability to connect existing boundaries to the “tradition and standards” of banking. This morality is not a judgment about transcendental notions of good and bad, but the articulation of a distinction between individuals worthy of credit and the undeserving. It is a judgment upon the creditworthiness of borrowers that reinforces boundaries against the indiscriminate—from the point of view of dominant bankers—extension of credit by wildcats.

Creditworthiness thus regulates the terms upon which borrowers gain loans, but it also restricts the ability of new actors to enter the banking business. It is a form of authority in the sense that it routinizes certain lending decisions by subjecting them to standards and rules. It systematically impedes other kinds of lending procedures that do not fulfill its requirements. The reference to wildcats, a term used to describe nineteenth-century U.S. speculators (Rolnick and Weber 1984) that Schumpeter usefully appropriates and generalizes, suggests this important caveat. Creditworthiness creates both boundaries and the opportunity to contest those boundaries. Bankers, Schumpeter implies, often include actors, organizations, and institutions that were previously outside this boundary, but this inclusion inevitably destabilizes the more general categories of worth that regulated previous transactions.

Consider the following example. Michael Milken has the dubious fame of precipitating the junk bond revolution of the 1980s (Abolafia 1996; Bailey 1991; Grant 1992). The idea behind junk bonds—that certain companies’ debt was systematically undervalued by rating agencies—was explicitly subversive. Milken was particularly interested in bonds that, from a position of high credit rating, had fallen to “below investment grade” rating (i.e., “fallen angels”). His strategy consisted of accumulating and concentrating the resources of players that had fallen outside the financial system. The fact that Milken became an emblem of reckless risk-taking and corruption should not distract us from the process that made his success possible: the recasting of previously excluded actors as worthy of credit (fallen angels) and the creation of new categories of worth with a new currency to circulate them (junk bonds, a term with a populist, self-assertive tone).11

Milken’s case illustrates the two pressures on prudent bankers that derive from the exclusionary practice of establishing creditworthiness. First, the pressure that outside, excluded constituencies bring to bear upon the credit system—a pressure that translates into a challenge to how creditworthiness is defined and assessed. Second, the emergence of new ideas within the banking system itself about how credit should be allocated. Schumpeter’s distinction between prudent bankers who follow sound banking traditions but create exclusions and opportunities for conflict, and wildcats who disobey sound banking traditions and thus create more inclusive but more unstable credit systems, introduces the moral authority of the banking system, the fact that its ability to create and allocate credit is predicated on its ability to draw boundaries.

Neither state-centered neo-chartalism (SC-NC) nor circuit-centered micro-sociology (CC-MS) understands how far-reaching the
problem of establishing creditworthiness is. In
the former theory, the state ensures the accept-
ability and reproduction of money by control-
ling the budget. But we have seen that the
state’s authority should not be taken as a given,
flowing automatically from the state’s ability
to extract taxes (Carruthers 1994; Centeno
2002; Gorski 2003; Hobson 1997). By con-
trast, authority in CC-MS flows from interper-
sonal relationships focused on specialized,
common economic activities and distinctive
media that mediate those activities. It is a hor-
izontal, moral, Durkheimean kind of author-
ity, through which money gains particularized
meanings. But it is also an authority that
remains dependent on interpersonal connec-
tions, and thus, because of the size and scope
of the circuits over which it applies, it can rely
on interpersonal monitoring and sanctions
(Granovetter 1985).

The problem faced by circuits, in fact,
turns out to be similar to the problem faced
by bankers and the state, once their curren-
cies begin circulation on the basis of imper-
sonal trust (Shapiro 1987). Just as the state
must reach down to consolidate its creditwor-
thiness, communities must project their cur-
cencies upward to expand the scope of their
circuits and thus, ultimately, their command
over resources. These linkages are created
through boundary-work. States and non-state
circuits couch the instruments they produce
in terms of creditworthiness and draw bound-
daries around the circulation of the instrument,
be it a state currency or a migrant remittance.
To different degrees, they then invest certain
authorities as gatekeepers of these bound-
daries. The gatekeepers tend to be members
of the circuit itself if the size and geographic
spread of the circuits are small (Carruthers
and Ariovich 2010; Zelizer and Tilly 2006;
for a historical analysis, see Lamoreaux
1994); they tend to be more specialized
agents when circuits cannot easily and effec-
tively rely on face-to-face monitoring
(Carruthers and Ariovich 2010). In such
cases, we can call these specialized agents
bankers—but bankers themselves are under
pressure to negotiate potential inconsisten-
cies in the circulation of money.

First, the fact that bankers themselves
often rely on yet one more layer of moni-
tors—such as credit rating agencies (Sinclair
1994)—suggests that increased size and
complexity of circuits produces more bound-
daries and thus more opportunities for special-
ized authorities. Second, while creditworthi-
ness is specific to the circuits in which
instruments (be it local, special-moneys, or
arcane derivatives) are produced and circu-
lated, the stability of boundaries is a matter
of degree: boundaries become more stable
the more general they are. Stability is at its
maximum when the boundaries the banking
system erects to grant loans coincide with
and feed into the boundaries drawn by the
state, and in turn relate to the boundaries delineated by local communities and circuits.
When the criteria informing these boundaries
no longer align across multiple levels of the
social structure, on the other extreme, money
loses its stability, homogeneity, and general-
ized nature. When criteria multiply across
different levels, money itself multiplies. For
instance, when the categories of creditwor-
thiness that communities employ to assess
their members coincide with the categories
of creditworthiness articulated by the bank-
ing system, we should see a proliferation of
local banks, specialized financial institutions,
and banks involved in the collection and
mobilization of deposits working within the
confines of the banking system.12 When
these categories are questioned, we should
expect differentiated monies that escape the
purview of the banking system. We should
also expect the emergence of actors and
organizations engaged in an effort to trans-
late these conflicting claims into new finan-
cial instruments so as to penetrate the credit
system—that is, the emergence of wildcats.

Similarly, the state institutionalizes credit-
worthiness not when it decides what curren-
cies its citizens will pay taxes in, but when
the boundaries it draws around who is
deserving of money in a specific form
coincide with the boundaries drawn by the banking system. The soundness of the state budget is not exclusively a function of the state’s ability to “ultimately pay its debts,” as Ingham (2004:143) has it. Rather, it is achieved through more contextual articulations of the state’s commitment to particular groups, such as financial elites. This commitment cannot be reduced to an alignment of economic interests (North and Weingast 1989) backed by norms (Seabrooke 2006), because it derives from the state’s continued adoption of symbolic practices that confirm the state’s initial commitment. Independent central banks, for example, are an ingredient of neo-liberal economic policy that diffused internationally independent of domestic economic conditions; they were adopted to show each state’s commitment to financial capital (Polillo and Guillén 2005).

The important point is that money is never the product of exclusively top-down or bottom-up dynamics, but of combinations and negotiations among actors and organizations operating on different levels. All authorities must abide by sound practices and present themselves as creditworthy to the extent that they are invested in the stability and acceptability of the currency they produce.\(^\text{13}\) To be sure, to capture the variety of monetary forms as they empirically exist, we must have a common standard that makes them comparable, as SC-NC theorists argue. But to understand how this standard is established does not require us to invoke altogether different processes than those highlighted by CC-MS. The differentiation of currencies simply needs to be managed, once a common standard of value is established, so as to maintain monetary stability. A general-purpose money is nothing but the institutions that allow actors to differentiate media and to keep in check and routinize the process of monetary differentiation. It is an institution that balances the forces that lead to the endless multiplication of currencies, discovered by Zelizer, with the forces that consolidate the boundaries of existing circuits.

The banking system specializes in this activity: it produces money as a differentiated social relation within a common framework. In other words, the tension between money as the most generalized means of accounting and exchange and money as the indicator of a personalized relationship of credit and debt is solved as a matter of routine. SC-NC and CC-MS disagree precisely because they do not have a sociological theory of bankers,\(^\text{14}\) thus, they underplay the importance of creditworthiness to money. Once creditworthiness and the ways it is drawn are considered, the theories not only cease to be incompatible but can be integrated into a more general account. How the stability of money is achieved becomes a sociological problem of understanding variation in the practices that sustain it.

**EMPIRICAL IMPLICATIONS**

Having laid out my argument about the centrality of moral authority and creditworthiness to the production of money, I now suggest that comparative historical research is needed to better refine the nature of the relationships between different sources of money. In particular, because there is great variation in the shape of banking systems —because the ways banks are embedded within local communities and the ways central states are embedded within them are not fixed—it is only through careful comparisons that the relations between moral authority and national political institutions, and moral authority and the politics of local communities, can be better specified. I take a preliminary step in that direction by analyzing an instance in which otherwise powerful actors—the U.S. federal government and U.S. financial elites in the pre-WWI period —failed to produce stable money because of their inability to control the distinctions grounding money.

I use the case of the United States in the postbellum period as an “object” in
Vaughn’s (1992) sense. I begin with the premise of state-centered neo-chartalism—that the state is the appropriate unit of analysis in the study of money—but then exploit variation across empirical levels to better specify my theory. First, I look at how the federal government attempted and failed to centralize political authority and establish paper money in the postbellum period—a failure that historians attribute to the Treasury’s mismanagement of the financial system. Analysis at this level highlights the shortcomings of SC-NC, shortcomings that can be addressed by looking at the relationship between fiscal authority and creditworthiness. Second, I look at the failure by core financial elites to stabilize the financial system due to local bankers’ reactions to new competitive pressures. Analysis at this level illustrates the shortcomings of CC-MS, because it was local bankers who pushed for the production and circulation of currencies that contested the criteria of creditworthiness espoused by the center.

Both levels of analysis are necessary to establish that the casual patterns implied by each theory (centered on the fiscal strength of the state and the solidarity of local communities, respectively), while present in this case, fail to produce the predicted result (a generalized and a localized currency, respectively). In turn, the concept of creditworthiness that I articulated earlier suggests why the theories do not lead us to the correct explanation: attention should be paid to how different actors (i.e., the federal government and national and local bankers) specified how their currencies should be used. More specifically, differences in actors’ ability to draw moral boundaries around money resulted in an unstable financial system—one in which the federal government could not maintain the dollar on a regime of fiat-money but returned to the gold standard, and national bankers failed to harness the financial resources of local bankers.

A final caveat is necessary. Because the cases are designed to address the actors, variables, and processes foregrounded by CC-MS and SC-NC, they do not allow me to test my explanation relative to other theoretical frameworks. For instance, I pay little attention to international dynamics (Bordo, Meissner, and Redish 2005; Eichengreen 1996), even though they are certainly relevant to a more general discussion of money. It is for this reason that my discussion, as I said, can only be considered preliminary. Nonetheless, a focus on creditworthiness does not preclude examination of the longer term chains and conditions through which creditworthiness is established: creditworthiness is a mechanism, not a theory of conditions. I hope that a careful examination of creditworthiness can be expanded into a fuller theory of the larger causal chain that leads to money.

SOUND BANKING AND CREDITWORTHINESS IN THE POSTBELLUM UNITED STATES: THE FAILURE OF FEDERAL MORAL AUTHORITY

In the nineteenth century, the United States was a decidedly decentralized country. Collection of taxes was predominantly a local prerogative. At the outbreak of the Civil War, the Union government, needing resources to finance its military efforts, opted for a rapid expansion of its liabilities—it issued massive quantities of debt. It did so in three ways. First, the government printed a new currency, the greenback, that could serve as legal tender and was not convertible into gold (Nussbaum 1957; Timberlake 1993; Unger 1964). Second, to facilitate marketing newly issued government bonds, the Union “[transformed] a large part of the financial community into clients of the state,” and “enticed and coerced” financiers into becoming “agents of the Union’s fiscal policy” (Bensel 1990:239). Some of the most famous financiers of the postbellum period,
such as Jay Cooke, gained their power and reputation in the context of mobilization for war.

Third, the federal government instituted national banking. Prior to the National Currency Act of 1863 and the National Banking Act of 1864, banking was a decentralized business (Bodenhorn 2000; Smith 1936; White 1983). Regulated at the state level, banks held the important right to issue banknotes, a right they normally gained (depending on the state in which their business took place) from a charter approved by the state legislature and from fulfilling certain reserve requirements. More than 6,000 different kinds of banknotes circulated in the United States in the antebellum period, with the market value of each depending on the financial soundness of the institution that issued it (Helleiner 2003). With the national banking laws enacted during the Civil War, the Union government took the power of monetary issue away from state-chartered banks, by taxing their notes, and gave it to newly created national banks, which could exercise this power upon the fulfillment of reserve requirements and the holding of Union (after the war, federal) government bonds equal to 90 percent of the value of outstanding notes as collateral (Sylla 1969). 17

By neo-chartalist criteria, once the war was over, the federal government should have been able to not only ensure the stability of the currency but fully embrace a paper-money regime. The government had successfully linked the issue of money to the federal debt, partly superseding the radically decentralized system of the antebellum period. It had gained the means to direct the financial system, because its money-of-account, the dollar, was now backed by a viable general-purpose financial instrument—government bonds—which the government (or more precisely, the Treasury) directly managed. Because government bonds were the reserve—the raw material, so to speak—for the physical issue of banknotes, they found their way into the coffers of thousands of banks that had applied for national status. Government bonds quickly became the main financial instrument that banks used as collateral for their operations (James 1978). In short, government bonds had become a widely used, diffuse, general-purpose currency. Neo-chartalists note that control over the debt is insufficient to create a stable currency unless it is grounded in a robust fiscal system. The postbellum United States certainly enjoyed fiscal health: the government quickly returned to generating fiscal surpluses after the conflict was over (Savage 1988). Those surpluses, in fact, allowed the federal government to retire a substantial amount of its long-term debt, a policy aggressively pursued until about 1893 (Williamson 1974).

Considering that the federal government’s fiscal authority was strong, why did the government pursue this policy of debt retirement, and why did the currency eventually return to the gold standard? It was not that the government had no use for paper money or debt. The government now occupied the Confederate South militarily, and its ambitious project of state expansion under the banner of Reconstruction enjoyed some degree of support (Bensel 1990). Control over its finances with a fiat currency would have afforded the government the kind of political and economic flexibility it needed (in fact, the Treasury backed off from its initially contractive monetary policy). Yet, just as certain actors within the federal government were pushing to centralize authority in unprecedented ways, others were resisting this move. The political position of financial elites was crucial in this respect. Financial elites pushed for a return to gold and the re-establishment of international monetary relations but were not in principle opposed to government expansion, yet they became increasingly suspicious of government authority. This suspicion, I will argue, was not a matter of coercion (or lack thereof) but was motivated by doubts over creditworthiness.
State-centered neo-chartalism (SC-NC), I suggest, is not well-suited to deal with this aspect of money.

One reason the federal government had difficulty exercising moral authority as creditworthiness was the politically and morally contentious status of greenbacks. Greenbacks polarized economic producers and, more generally, debtors and users of money, against financial actors, creditors, and producers of money. The vitriolic monetary debates that rocked the postbellum period until Resumption in 1879, when convertibility was reinstated, centered on this issue: should the United States return to the gold standard, or should it embrace the altogether different regime of fiat-currency, that is, paper money? To return the dollar to gold, the federal government’s outstanding debt first had to be retired in gold; without convertibility, the government could simply issue more inconvertible fiat money, that is, more greenbacks (Unger 1964). Different political coalitions were on each side of the plan. A return to gold would have deflated the economy and favored the holders of federal debt. Hence, bankers and financiers tended to support this option (Bensel 1990). A retirement of Civil War debt in greenbacks, on the other hand, would have increased the money supply and thus favored debtors. Farmers and industrialists tended to support this option (Goodwyn 1978; Ritter 1997). There were also important sectional (East versus West) and partisan (Republican versus Democrat) dimensions to this split (Unger 1964).

Questions about greenbacks and gold were not merely technical arguments, or arguments couched in terms of crisply defined and self-evident economic interests. Rather, the money question centered on whether the central state had legitimate authority to control currency. These debates concerned how the boundary between state and market, between government and the economy, should be drawn and conceptualized. In the controversy over greenbacks, one side couched money in terms of “natural laws” as it pushed for a reinstatement of the old monetary regime; the other side argued that money was a “social convention” as it pushed for a new arrangement (Carruthers and Babb 1996:1558; Douglas 1986, 2002). The argument on natural laws was transcendentally moral in its condemnation of human interference with putatively divine arrangements. The greenback counterargument about money as a convention was moral in the Durkheimian sense of recognizing the importance of the “will of the people,” and of the importance of human control over institutions, rather than simply assuming their divine character (Carruthers and Babb 1996:1571).

Competing moral accounts of what the nature and value of money should depend on intersected with a set of concerns on the nature of the federal debt. Here, pro-gold activists and greenbackers seemed oddly in agreement. As they mobilized a political campaign against greenbacks, and later silver, pro-gold activists called government bonds a “forced loan,” referring to the fact that bonds were used specifically to finance the war effort and thus should be retired once their purpose had been achieved. Even some of the greenbackers assumed the debt would eventually have to be retired.22 As a result, after Resumption, paper money lost salience as a political issue, and the institution of a dual standard of gold and silver became the rallying cry for ex-greenbackers and populists, precisely because it fit more easily with a worldview that opposed government deficits (Ritter 1997). The very constituency of debtors who stood to benefit from paper money dropped it from their political repertoire because of its morally dubious status. Ironically for the SC-NC perspective, federal indebtedness was suspicious and divisive precisely because it had military and coercive connotations.

A fundamental underlying problem revealed by the debates on currency and debt was that the government in general,
and the Treasury in particular, lacked the capacity and the will to put forward a coherent, morally compelling account of its authority. Riddled by nepotism and partisanship, the most important posts at the Treasury were filled through political favors (Bensel 1990; Skowronek 1982). This fueled the financial elites’ accusations against the Treasury as being corrupt and incompetent. Partly as a consequence of his politically delicate position, the Treasury Secretary’s ability to redefine the department as a source, rather than a passive beneficiary, of creditworthiness deteriorated in the postbellum period.

George S. Boutwell, Treasury Secretary under President Grant between 1869 and 1873, supervised a reduction of the national debt and was comfortable with the exercise of monetary authority (which he thought derived from legal obligation). He was struck, though, by the moral character of the Treasury’s operations and, in particular, its use of a $44 million cash reserve to regulate the U.S. money supply:

When the Secretary of the Treasury came in and issued a portion of the forty-four million, however small, he changed the relations of debtor and creditor. If that were not a great responsibility in a country of forty million people, with various interests locking and interlocking with each other, then I know not what responsibility is. It is not a legal responsibility, but it is a business and moral responsibility of the highest character. (Congressional Record 1873: 19–20)

In Boutwell’s reasoning, Treasury’s reserve operations had a moral character because they affected the quantity of money in circulation, causing contraction or inflation. In both cases, this changed “every transaction between creditor and debtor” (Congressional Record 1873:20). Recognizing the effects of the Treasury operations was only a first step in devising new criteria for managing the monetary system. When these operations kindled the Panic of 1873, as the Treasury failed to plow reserves back into the system, the urgency of monetary reform once again became pressing. The Panic came to an end, in fact, when the Treasury, in a fiscal deficit because of a stalling economy, was forced to reissue $26 million of its $44 million reserve. Secretary of Treasury William Richardson could, in principle, have acted sooner, but he did not because he demanded that “Congress answer the question” of the Treasury’s authority “by a distinct enactment. . . . He was a constitutionalist who did not trust his own judgment in making critical policy decisions” (Timberlake 1993:106).

For Richardson and Boutwell, the lack of a clearly specific set of criteria through which to define boundaries between creditors and debtors, between those deserving of credit and those to be excluded from it, translated into indecisiveness and uncertainty. Timberlake (1993), the most authoritative study in this regard, shows that similar political tensions and questionable decisions characterized the Treasury’s response to the banking crisis of 1884, Shaw’s policies under Roosevelt, and Cortelyou’s fateful indecision in the face of the 1907 financial panic. Carruthers (1994) argues that the Treasury’s lack of cultural autonomy extends to the post-WWII period.

The federal government and the Treasury, in short, were unable to institutionalize money because, to a large extent, they failed to provide morally compelling representations of creditworthiness. Their indecision in sorting monetary matters, and in assigning clear responsibilities and jurisdictions to other institutions and organizations, flowed from a political impasse that discredited political authorities’ ability to deal with monetary matters altogether. In the crucial decade after the Civil War, financiers came to see the Treasury as unable to competently fulfill its financial functions, with momentous consequences. Incompetence became “the
crucial factor in turning finance capital away from a potentially neutral or even favorable attitude toward central state expansion” (Bensel 1990:239).

CREDITWORTHINESS IN THE POSTBELLUM UNITED STATES: THE GENERAL-PURPOSE AMBITIONS OF LOCAL CIRCUITS

The federal government’s lack of moral authority over money also meant that in the postbellum United States, currencies remained differentiated and imperfectly integrated, if not altogether segregated. Zelizer dedicates the first chapter of Social Meaning of Money (1994) to this state of affairs, showing how banks and non-banking institutions, such as prisons and asylums, contested the federal government’s attempt to homogenize financial flows. Yet the same period witnessed an effort to create more general-purpose currencies orchestrated not from the top, but from local constituencies—from local banks. This creates problems for Zelizer and circuit-centered theorists, and it illustrates how a focus on the multiple sources of creditworthiness allows us to circumvent some of these difficulties.

Just as the state was having trouble institutionalizing creditworthiness at the national level, local bankers, too, were under competitive pressure to abandon established traditions and standards, or sound banking practices. Local bankers were thus contesting the moral authority—the ability to impose creditworthiness—that national bankers were struggling to define in the face of an incompetent Treasury. The U.S. banking business was (and still is) organized on two levels, national and state/local. It was a dual system, and there was tension between national- and state-level bankers over what kinds of instruments should have what kind of circulation (White 1983). Certain features of the national banking laws gave distinct advantages to state and local bankers, including a prohibition of branch banking at the national level and the imposition on national banks of higher minimum capital requirements and more portfolio restrictions than on state and local banks. But local bankers’ power was considerably limited by competition from other local and national bankers, because the national banking laws set a new wave of liberalization that opened up the banking business to all capitalists who fulfilled certain general requirements. Local banking elites now faced financial competition from newcomers (Bodenhorn 2000; Hammond 1957).

In times of such rapid legislative change, the institution of sound banking at the local level was under increasing strain: banking laws that transgressed existing boundaries weakened the social, cultural, and moral cohesion of bankers. The final blow was dealt when the national banking system prohibited state banks from issuing banknotes, giving this power exclusively to national banks. This caused state banks to rush to gain national status in the immediate postbellum period, and it triggered a process of financial innovation to compensate for the loss of privileges (White 1983).

As a result, the 1870s and 1880s were characterized by the diffusion of new financial practices, the most important being call loans, that subverted the categories of creditworthiness that characterized the system in the antebellum period (James 1976, 1978). Call loans (also called brokers’ loans) were secured loans “representing advances made to brokers by pledging stocks and bonds with the bank as collateral” (James 1978:63). Prior to the Civil War, country bankers had developed the practice of maintaining “bankers’ balances” with city banks: they would deposit funds with banks in commercial centers, such as New York, to facilitate trade with the interior. National banking legislation institutionalized this practice into a full-fledged “correspondent
banking” system, which designated certain city banks as reserve banks and allowed some of the funds country banks deposited with those city banks to count toward the fulfillment of their reserve requirements. Legislation also encouraged country banks to deposit additional money in the cities. To turn higher profits on these deposits, country banks “as soon as they get any balance in excess of the minimum amount which they feel they must carry, it is in order for them to instruct their city correspondent to loan it” (Vanderlip 1906). Call loans were country banks’ favorite investment (James 1978). Frank Vanderlip (1906), at that time Vice President of National City Bank, continued:

It looks to me like the most serious rock ahead for banking. It amounts to really giving away our business if we are to make loans like this to everybody. ... At present it is useless to refuse for every bank here will make them. The First National ordinarily makes a small charge for the business but will do it for nothing rather than permit a correspondent to go elsewhere with the business.

In a thorough investigation of the postbellum banking system, James (1978) highlights how what Vanderlip perceived to be a problem of correspondent banking—the fact that it encouraged competition—was precisely its most positive aspect. According to James, correspondent banking and the call loans that mobilized country bank deposits integrated a capital market that, due to other institutional features of the banking system, would have otherwise remained regionally fragmented. Moreover, competition over these sources of funds should be considered evidence against the Progressive charge that “the New York market was a noncompetitive one or that a ‘Money Trust’ in fact existed” (James 1978:110). Precisely to the extent that these new practices transgressed previous boundaries around the circulation of money, they also challenged existing definitions of creditworthiness.

We can, in fact, turn James’s proposition around and argue that, to the extent that no cohesive group of bankers had control over the allocation of credit, the banking system was wildcat in Schumpeter’s sense. Just as the pressure to homogenize financial flows increased, the system became more unstable. Bankers’ authority to impose “concert of action” among banks at all levels was eroding (James 1978:101), and more specifically, so was the authority to impose criteria and practices of creditworthiness through which the differentiation of money could be controlled. Under the national banking system, no organization had enough power to exercise moral authority and impose creditworthiness. Thus, no organization could link the money-of-account and the multiple instruments that the money-of-account made possible.

This would appear to be powerful evidence for Zelizer’s thesis that currencies that exceed the boundaries within which they are earmarked as appropriate lead to contestation and conflict. But Zelizer’s CC-MS theory cannot explain why local bankers would invest their money in call loans to start with, or, to put it analytically, why currencies would ever exceed the boundaries of the circuits in which they are generated. Call loans were instruments over which local bankers retained some control (i.e., the loans could be called back), but whose investment and circulation was in the hands of reserve banks, not local banks. To be sure, call loans were profitable, but this explanation does not belong in the CC-MS theoretical vocabulary. What explains the emergence, circulation, and instability of such general-purpose instruments, I submit, is the crisis of creditworthiness that characterized the links between different levels of the banking system. This crisis of creditworthiness was a result of new actors’ entry into the banking system, as Schumpeter (1994) argues. It is due to this crisis of creditworthiness that
more general-purpose currencies became possible, and that they were unstable, as evinced by the cycles and panics that characterized the postbellum period (Bruner and Carr 2009; Goodhart 1969). In this respect, a focus on creditworthiness complements rather than replaces existing accounts of the instability of the postbellum years that focus on changes in the economy’s organization (e.g., Livingston 1986). Creditworthiness is the mechanism through which material interests were defined as collective interests (of specific circuits) and then translated into financial interests.

DISCUSSION

These examples illustrate how the production of creditworthiness is in some important ways historically contingent, because it depends on the meanings that different actors and organizations attribute to specific currencies. These cases add a temporal dimension to my initial formulation of the theory of creditworthiness: creditworthiness is not simply established at the intersection of the categories used by different circuits, but it also derives from history. The meanings of currencies have a historical trajectory. Civil War debt, for instance, because it had a legacy of coercion and government expansion, was particularly suspicious to bankers and even to some progressive political actors—a problematic fact for neo-chartalists who do not recognize the nature of authority as important to the production of money. Call loans, while obviously not a North American invention, had a specific role in the U.S. context because of the institutional context in which they were deployed. All these currencies had to be not only produced, but circulated. And this did not happen in a social vacuum, but in the partially overlapping circuits through which individuals and organizations already conducted their monetary transactions. The mode in which circulation was enforced affected how currency was regulated through criteria of creditworthiness. The source of these new currencies—local and state banks or the Treasury—further shaped their meanings and acceptability.

Discussion of these cases also reveals that the reason moral authority in the form of creditworthiness, rather than local network trust or fiscal authority, grounds money is that creditworthiness justifies existing exclusions and boundaries on a general scale. Local trust, on the other hand, cannot be generalized beyond the boundaries of the network, and fiscal authority is limited if achieved exclusively through coercive means. The banking system, I argue, is the arena in which these dynamics play out. Bankers must enforce creditworthiness on their clients and themselves, or their control over money will be contested and, at worst, usurped by organizations drawing from other sources of authority.

Local bankers constituted just that kind of challenge to national bankers, who eventually responded through a large and powerful reform movement between 1894 and 1913. The main purpose of the reforms was to work out a new set of criteria, moral and ideological, to inform the new corporate economy (Fligstein 1990; Livingston 1986; Sklar 1987). Faced with what Livingston calls a lack of hegemony, financial elites fought back by rearticulating principles of sound banking and rules for regulating the banking system that were eventually incorporated in the Federal Reserve Act (see also Broz 1997).

Finally, just as SC-NC cannot explain monetary instability arising from conflicts over the creditworthiness of organizations that create particular kinds of currencies, CC-MS theory cannot explain why local actors and organizations would push for the constitution of general-purpose currencies. CC-MS makes special-purpose monies synonymous with local circuits, and general-purpose money synonymous with distant actors and organizations (in Zelizer’s case,
even the anonymous market). But U.S. local and state bankers did push for general-purpose currencies, as they adopted instruments such as call loans, checks, and demand deposits that allowed them to transcend constraints imposed upon them by national bankers and then invest the money in stock markets. Local bankers adopted instruments that had more generalized circulation than the ones in use before; this contributed to mobilizing money beyond the boundaries of local circuits in a process that led to the national integration of capital markets (Sylla 1969, 1982). Of course, this also led to an increase in the fragility of those markets. This suggests that a process more general than local solidarity and fiscal authority underlies the production of money—a process that can be exercised on multiple levels of the social structure and that often leads to conflict and instability rather than harmony and equilibrium. This process, I argue, is the exercise of moral authority over money, or creditworthiness.

CONCLUSIONS

This article discussed two theories of money—state-centered neo-chartalism and circuit-centered micro-sociology—to develop a more general theoretical vocabulary with which to explain the simultaneous existence of generalized, transgressive currencies and limited, special-purpose ones that reflect social structure. Money is a collective process of abstraction, so its enforcement requires authority. For SS-NC, because the state is historically the strongest form of authority, money is whatever token within which the state requires taxes to be paid. SS-NC assumes that, once the state gains authority, it will always be able to impose its own criteria on subordinate social groups and organizations, insofar as it maintains fiscal capacity. The CC-MS theory of money, by conceptualizing money not as homogeneous, uniform, fungible, technically neutral, and rational, but as meaningful and personalized, shows that social relations counteract the state’s homogenizing power. The theory does not specify, however, the mechanisms through which circuits can gain more general acceptability for their currencies, beyond the boundaries that emerge from patterns of social relations.

I argued that when it comes to money, states and local circuits are in the business of establishing creditworthiness, for themselves and for the instruments they produce. Creditworthiness is the form that moral authority takes in monetary matters: it is the mechanism that mediates whether fiscal capacity and local solidarity are translated into sources of monetary stability. Normally, bankers monopolize this moral authority because they are the specialized actors who control how creditworthiness is defined. Bankers grant credit only upon the fulfillment of certain criteria; and the kind of credit they extend—for example, short-term credit card loans, stock and bonds, and securitized mortgages—varies dramatically depending on the creditworthiness of the client and, more precisely, on how that creditworthiness is defined. But bankers are never in full control of creditworthiness. First, bankers themselves are differentiated and specialized actors, oriented to different degrees toward local finances or national and international activities. Hence, bankers can enter into conflict among themselves over what creditworthiness is and what it implies. Second, local and political sources can be mobilized in challenges to bankers’ moral authority: communities may contest how bankers assign credit, and states may respond to fiscal pressure with methods that are incongruous with those practiced by bankers.

To capture this variability in the practices through which creditworthiness regulates money, I argue for an important shift beyond informal, privatized, special monies, as if they constituted a realm of economic life apart from more official processes. Under
a perspective that focuses on how monetary institutions are built from the ground up and the top down, the unmistakable differentiation of money and its simultaneous homogeneity deriving from money-of-account cease to seem paradoxical. They both become tensions managed through institutional work.

It then becomes imperative to conduct focused historical comparisons to capture variation in sound banking institutions and the nature of the conditions underlying the dominance of any given source of authority. One possible path is that taken by the economic history of industrialization, with its move from national histories of economic development to local and regional processes of industrialization (Herrigel 2000). This means, first, not assuming that politics of monetary conflicts, and the identity of the involved actors, are fixed, as economic historians often do (see Mann 1993). Second, it means introducing variation not only through cross-national comparisons (Sylla, Tilly, and Tortella 1999) but also through diachronic analysis. Let me conclude by expanding on this point.

During state formation, state actors were the main challengers to monetary stability because their need to extract taxes had to be negotiated with privatized networks of capitalists—a path to state formation that Tilly (1992) defines as capitalized coercion—and capitalists often resisted state demands. This trajectory has been incorporated into the ways we think about money—in our theories about money—as if it were a blueprint that all subsequent instances of monetary conflicts had to follow. It is as if all instances of monetary conflict and stability were ultimately reducible to the state’s interference with private exchanges and the market.

This is too narrow a perspective. The institutionalization of money as a process managed by the state made new kinds of alliances possible between local actors and bankers that are not yet fully understood. As Hicks (1969) put it, with the emergence of deposit banks—institions spread out over a territory and responsible for collection and centralization of local resources—banking went from financing a sovereign to building nationally inclusive financial systems. State penetration, however important, was only one among many processes that linked territories and center. The diffusion of deposit banks, and more generally the creation of new currencies specifically targeting local clients, also created an infrastructure through which new connections between locales and financial centers arose independently of the state’s fiscal policy. The history of banking in some ways reflects the history of the state, but it is not reducible to it.

Bankers’ gradual penetration of local communities—specializing in collection of local deposits, management of local wealth, and extension of local loans—was a long-term process that, while replacing old boundaries and restrictions on currencies, also created new ones. This was not a march toward equivalence and commensurability, but a political process through which boundaries were contested, breached, and, most important, re-created. Some local banks specialized in serving particular constituencies, taking the form of credit unions, savings cooperatives, or rural banks, and giving money a physical, tangible, and moral character (Dodd 2006; Haveman and Rao 1997). Other bankers and non-banking financial institutions specialized in financial innovations that, once implemented at the local level, subverted dominant criteria of creditworthiness. This dialectic continues to have two important implications.

First, if currencies are constantly subject to two contradictory pressures—one toward the homogenization of the categories through which they are assigned to specific groups of people, the other toward a differentiation of those categories—the economic and political institutions (i.e., markets and states) through which currencies circulate cannot be understood as the result of a functionalist

Downloaded from asr.sagepub.com at Max Planck Society on May 30, 2011
solution to inefficiency or instability (Williamson 1994). Rather, as heterodox economists like Minsky (1986) have long recognized, the very dynamism of capitalist credit-money is inevitably a source of financial fragility. Insofar as markets and states are implicated in financial expansion, it is mistaken to apply functionalist thinking to them.

Second, financial deepening is implicated with more monetary differentiation (Sassen 2010), in direct contrast to theories that see the expansion of financial systems as conducive to the seamless, more efficient mobilization of credit. In a repetition of the process Zelizer identified in the turn-of-the-twentieth-century United States, whereby monetary homogeneity, enforced by the federal government, led to more monetary differentiation, the financialization of the world economy in the past 40 or so years represents a similar instance of homogenizing and differentiating processes feeding off each other. The boundaries and distinctions created by the financial regime of the post-New Deal era, aimed at extending access to credit but only upon fulfillment of certain criteria of full employment in Fordist organizations, seems to have been altogether superseded. The new regime provides access to credit on individualistic, post-Fordist criteria, aimed at expanding the reach of the financial system into niches historically marginalized by the credit system: the lower classes, individuals with poor credit histories, and groups altogether excluded by the structure of power (Aglietta 2000; from a different political perspective, see Davis 2009; Ferguson 2008). The rise and fall of the subprime mortgage market is the most recent and dramatic instance of this process (see Lounsbury and Hirsch 2010; Rugh and Massey 2010; Schwartz 2009). Subprime mortgages, while they circulate in global markets, are local currencies tied to the purchase of real estate. They were explicitly devised to make previous criteria of credit assessment irrelevant because of the purported power of those who bundled them in derivative instruments to parcel out risk. Mortgage-backed securities held the promise of erasing inequalities in risk and increasing homogenization; instead, they created a conflict over creditworthiness, indeed a crisis over what constitutes the moral authority of money. This conflict implicated and destabilized local circuits of money in perhaps unprecedented ways, representing a victory for wildcat banking of epic proportions.

This crisis poses a new challenge to the stability of the banking system. Creditworthiness is a system of exclusions; it remains to be seen whether old exclusions will be reinstated, new exclusions will be invented, or exclusions will ultimately be suppressed and replaced by a more just system.

Acknowledgments
I wish to thank Randall Collins, Mauro Guillén, Sarah Babb, and Julia Lynch for the numerous conversations that led me to the development of the ideas presented in this article. Gianfranco Poggi, Richard Swedberg, Rachel Rinaldo, and Rina Williams helped me clarify the argument at a critical moment. I also benefited from presenting an early draft at the Society for the Advancement of Socio-Economics Meetings in Philadelphia, 2010, and from an outstanding set of comments from the editors of ASR and the anonymous reviewers they enlisted.

Notes
1. This analogy may seem somewhat flawed because money is subject to inflation, whereas the metric system is not. Yet, the analogy draws attention to money’s primary aspect as a unit of value. Furthermore, units of measurement have their politics, too, as seen in the early modern state’s attempt to survey landed property and tax it appropriately (Porter 1996).
2. In a similar vein, economic anthropologists such as Bohannan and Polanyi associate money—more specifically, the general-purpose money of capitalist societies that can circulate anywhere and be held by anyone—with the disappearance of pre-market societies’ moral economies and their systems of reciprocity and obligations that regulated and restricted exchange. More contemporary theorists of modernity, such as Giddens and Habermas, identify in money a similarly transcendental quality—an ability to break through social boundaries that have seemed natural since time immemorial—that serves
as a key metaphor for the transformation in the perception of time and space, the new ontological insecurities, and the unhealthy interpenetration of technical systems with the life-world that characterize the modern era. In all these theoretical perspectives, money is assumed to be the same everywhere and to always lead to the same outcome: more quantitative commensurability among things that are, or should be, qualitatively different.

3. Modern money-of-account emerged in a state of political fragmentation during the high Middle Ages; yet at the same time, Western Europe was stabilized by a shared normative commitment to Christianity (Ingham 1999; Mann 1993). These two conditions—fragmentation and peace—allowed for the development of international merchant networks: money, even though it originated as credit between merchants and customers, became a means of payments within those networks because it no longer directly symbolized the debt that two specific parties had incurred with each other. Money was depersonalized and could be transferred and used as a means of settlement (merchant networks physically came together in the medieval fairs to balance their books). In short, money acquired its first formal property as an abstract credit–debt relation no longer attached to a specific transaction (Braudel 1977). But money had not fully evolved into a full and viable money-of-account (Ingham 2004). It took a second, decisive event to complete its institutional development: the Glorious Revolution in England. The compromise that ended the revolution was the settlement between London’s moneyed merchants and the Sovereign, guaranteed by a shared system of representation and sovereignty under the formula “King in Parliament” (North and Weingast 1989). Merchants funded the sovereign’s debt; in return, they got a charter for a bank (the Bank of England) that was invested with the management of the debt, which they could use as the basis for the extension of further credit (Ingham 1984). The King’s private debt thus became the public debt of the state, a transformation that characterizes all subsequent attempts to institutionalize money by modern state makers (Ingham 1984).

4. Evans (1995), Hobson (1997), and Seabrooke (2006) show the relevance of this critique for an analysis of the interaction between the state and the economy. Evans argues that successful developmental states embed themselves in civil society, rather than insulating themselves. These states maintain autonomy from the power and pressures of organized interests in civil society, or, as Hobson (1997) shows in his ambitious study of the sources of fiscal capacity in pre-WWI mostly-European states, they act as interlocutors of different societal interests but are autonomous enough to retain the ability to play classes off of each other if need be (see also Carruthers 1994, 1996; Migdal 2001). Seabrooke (2006:32) adds to this perspective by shifting the focus from state capacity and embeddedness to legitimacy.

5. Langley (2008), critiquing Seabrooke and others for a narrow focus on the relationship between state and private uses of finance, suggests that one must pay attention to the constitutive power of financial categories, a power that goes well beyond what the state can do. While I agree with his general argument, I differ from Langley in that I do not replace the top-down approach of state theorists with a Foucauldian conceptualization of power as decentralized and capillary. Instead, I look for variation in how creditworthiness is consolidated by different agencies.

6. Krippner (2001; Krippner and Alvarez 2007) levels a similar critique against economic sociological theories of embeddedness that do not explicitly theorize markets.

7. Some financial systems have historically been more oriented toward the financing of industry and the collection of deposits, while others have generated more specialized institutions operating through the stock market (Gerschenkron 1962); some have been more territorially embedded, others more exclusively oriented toward national and international transactions (Ingham 1984); and some have been strictly controlled by governments, while others have enjoyed more autonomy (Zysman 1983).

8. For Schumpeter (1911:73), for instance, previous savings may be a source of financing, but in the capitalist system, the more important one is “the method of obtaining money [through] the creation of purchasing power by banks. The form it takes is immaterial. The issue of banknotes not fully covered by species withdrawn from circulation is an obvious instance, but methods of deposit banking render the same service, where they increase the sum total of possible expenditure. Or we may think of bank acceptances in so far as they serve as money to make payments in wholesale trade. It is always a question, not of transforming purchasing power which already exists in someone’s possession, but of the creation of new purchasing power out of nothing—out of nothing even if the credit contract by which the new purchasing power is created is supported by securities which are not themselves circulating media—which is added to the existing circulation. And this is the source from which new combinations are often financed, and from which they would have to be financed always, if results of previous development did not actually exist at any moment.”
9. To be sure, bankers accumulate reserves of safer, liquid assets that allow them to meet exceptional demand for cash, and in most systems they are required to do so by law (Canada is a notable exception). Because of its liquidity and generalized acceptability, the money of the state is the most desirable in this respect (Bell 2000, 2001; Minsky 1986). Yet banks profit by minimizing their holdings of reserve money that, by virtue of its safety, yields little to no interest (Bagehot 1920). Reserves can be borrowed later.

10. Because reputation builds reputation, Goodhart (1988) and Smithin (1994) rightly characterize the banking system as subject to centralizing and hierarchical pressures.

11. In Milken’s case, the threats these new categories posed to the stability of the system were eventually neutralized, so the junk bond market survived his personal downfall (see Abolafia and Kilduff 1988; Stearns and Allan 1996).

12. Haveman and Rao (1997:1644) analyze, for instance, the fascinating evolution of thrift institutions in the Progressive Era, narrating “the downfall of thrifts based on mutuality and enforced effort and the rise of thrifts celebrating bureaucracy and voluntary effort” as a response to the ways local communities were reorganized by new migratory flows and the generalized rise of a bureaucratic ethos— institutions that could be easily absorbed into a banking system similarly focused on the bureaucratic handling of creditworthiness. Muldrew (1998) tells the obverse story of seventeenth-century England’s local communities reconceptualizing and mobilizing their collective understandings of trust and reputations in response to the tightening of monetary policy by the Treasury and the scarcity of money with which to carry out commercial transactions.

13. Bankers and other organizations, including the state, can breach existing boundaries so as to profit from the arbitrage of opportunities and mismatches. They can make money or increase their revenue by turning existing circuits of money into the basis from which new circuits spin off. A contemporary example is the securitization of home mortgages, a process of bundling highly individualized credit contracts into more general instruments that can be bought and sold in arm’s length markets and thus serve as collateral on the basis of which debtors can take up new loans. Collins (1999) suggests that the very nature of capitalism is a process that creates vertical markets out of existing instruments and media of exchange. But this dynamic crucially depends on financial innovators’ ability to couch their new financial instruments in new moral categories by, for instance, labeling risky mortgages “subprime mortgages” rather than “toxic assets.”

14. This is not to say that SS-NC does not recognize the importance of bankers (see Moore 1988). It is simply to say that, in general, SS-NC does not put a sociological understanding of banking at the center of its understanding of money.

15. To cite a simple indicator of decentralization, Wallis’s (2000) comprehensive analysis of U.S. fiscal dynamics puts the share of revenue accruing to the federal government at 30 percent of total public revenue throughout the pre-WWI period.

16. This was a major break with economic orthodoxy. In the nineteenth century, adherence to the gold standard, which required that national currency be convertible into specie upon demand, was an objective widely shared by governments seeking foreign investment and international trade (Eichengreen 1996).

17. In this respect, even though debt issue and alliances with powerful capitalists were political strategies more centralized countries (e.g., Napoleonic France) had repeatedly resorted to when faced with imminent war, the United States differed because of the particular way it mobilized resources. The Union’s decision to impose bonds as collateral on the issue of banknotes, and to enact a comprehensive set of banking laws that went on to constitute the national banking system, set the United States apart from other countries.

18. For different aspects of the money question, see Frieden (1987) and Ritter (1997).

19. As one bullionist put it: “We may invest, and devise, and try to circumvent the natural laws on this subject to the end of time, and we shall end just where we began. There can be but one universal standard of value, and the attempt to substitute anything for it will inevitably fail” (Pike 1868:25, quoted in Carruthers and Babb 1996:1572).

20. As one greenback supporter put it: “We, the people, make the government. We give the government power to make, provide and issue money under proper rules and regulations. . . . We make our money, we issue it, we control it” (Wolcott 1876:21, quoted in Carruthers and Babb 1996:1572).

21. In early May of 1895, Edward Atkinson, a prominent Boston industrialist and close friend of Grover Cleveland, wrote to John DeWitt Warner, president of the Reform Club of New York: “I send you here with a copy of an analysis of the March Statement of the Public Debt with the reasoning accompanying it. . . . Calling a spade a spade—that is, calling each demand loan a forced loan, has stirred up a good deal of discussion, notably in the ‘New York Tribune’ and the ‘Boston Herald.’ That is what we want. Therefore I propose to continue to recast each monthly statement in substantially the same form and I can accompany each with a memorandum in explanation. I think it would be excellent plate matter for you. If you adopt it I will each
24. While state policies on branch banking in the ante-bellum period were very diverse (White 1983), they generally did not favor the formation of branches (this is one reason for the extreme fragmentation of banking). Local anti-branching laws were meant to protect the territorial monopolies established by banks operating in a given community, especially small banks, because they prevented larger institutions from competing. Anti-branching requirements at the national level gave similar advantages to local bankers: no national bank could open branch offices. Hence, local bankers need not worry about the intrusion of large banks on their territory and could maintain some monopoly power (James 1978). Different capital requirements for national and state banks had similar effects: state legislation varied tremendously, but, on average, smaller capital requirements were required for the opening of a banking business, which preserved local bankers’ ability to do business in small communities where high levels of capitalization would have been economically unviable. Finally, national regulations forbade banks from making loans with real estate as security, whereas states generally imposed fewer restrictions. This clearly favored state banks in rural areas, where loans backed by real estate were the most prevalent financial instrument (Calomiris 1995; Sylla 1969).

25. This is in contrast to the pre-Jacksonian period, when capitalists could enter the banking business only after obtaining a special permit or charter from the state legislature that had jurisdiction over the territory (Formisano 1974; Knodell 2006; Rockoff 1974; Sellers 1994).

26. In this respect, this article is an extension of Carruthers and Stinchcombe’s (1999) argument that economic assets must be made comparable and standardized through cognitive work. I would argue, however, that cognitive work in and of itself is insufficient without the exercise of moral authority—a claim that, as I put it earlier, has quintessentially Durkheimian roots.

References


Congressional Record. 1873. Senate, 43rd Congress, 1st Session. Appendix.


Vanderlip, Frank. 1906. Vanderlip Papers, March 23, Personal Correspondence, Rare Book and Manuscript Library at Columbia University, New York, NY.


**Simone Polillo** is currently an Assistant Professor in the Department of Sociology at the University of Virginia. He is working on a book manuscript that develops a comparative historical perspective on banking and financial conflict. In a related paper, forthcoming in *Theory and Society*, he extends his theory of money and creditworthiness to capture the present financial conjuncture.