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MONEY

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Money seems like it ought to be easy enough to understand. Money surrounds us all, and we use it every single day. Unlike a whole host of complicated and arcane financial devices (from bonds to derivatives to credit default swaps), money is practical and uncomplicated. We learn how to spend money more easily than we learn a language, so money shouldn't be so hard. Indeed, we might assume that we all already know the language of money because we are fluent in its practical use. What more is there to learn? And as we have already covered, many standard treatments of economics approach money in just this way: they define money simply as the “means of exchange” and use the metaphor of “lubricant” to describe the simplicity of money as a technical device that aids us in buying and selling things.

If only it were that easy. Unfortunately, it turns out that money is hard—really hard. John Maynard Keynes was arguably the greatest economist of the twentieth century, but early in his career he spent the better part of a decade trying to come to terms with the theory and history of money. Keynes referred to this period as his “Babylonian madness” because trying to grasp the nature of money (through study of the ancient Babylonians) drove Keynes close to insanity. Closer to our own time period, Geoffrey Ingham may be the single most important authority on money today, but he only arrived at that point through his own form of Babylonian madness. Ingham is a sociologist who contracted to write a short introductory sociology text on economic institutions. His first chapter, like this one, was meant to provide a brief discussion of money. But instead of writing that chapter and that book, Ingham delivered a different book, and delivered it many years late—an entire book on money (Ingham 2004). All in all, Ingham has now spent at least a quarter of a century trying to understand money.

Obviously we don't have that long. But we can move more quickly if we remind ourselves that just because we can use a technology does not mean that we understand its nature—just

this character because of the relationship between money and commodities *as established by* the structure of capitalist production. In other words, within a society in which all production has been organized in order to use money to produce goods to sell and in turn garner more money, in a society in which all basic human needs (food and shelter) can only be met by purchasing goods with money, it is not surprising that people would come to think of money as having intrinsic, positive value.

Close analysis has therefore shown us that money is a social relation of credit/debt. Money is the abstract *measure* of value, but money has no value itself. Nevertheless, money consistently and continually appears within a capitalist society as if it were value itself, since money is the ultimate and most practical form that value can take. Yet money is not necessarily the primary form that value takes within capitalism, and it is surely not the only form. Indeed, many economic writers have argued from a variety of perspectives that the fundamental element of (capitalist) economics is the commodity. In the next chapter we therefore turn to the commodity, but we will find that in doing so we cannot leave money behind.

refused to trade. The British traders couldn't grasp that by assuming money was intrinsically valuable, it was they who were being weird. Hence they projected that strangeness onto the African tribes, attributing to them a “fetishism” about certain objects, an irrational commitment or devotion to the object. This all arose because the tribespeople refused to treat these objects as commodities, as entities that could always be exchanged for money. This chapter has shown that the true fetish character belongs to capitalist money and capitalist commodities because the social relations of capitalism mean that those entities seem to have the mystical property of intrinsic value (see David McNally 2011).

Capitalism Posits Money as Value Itself

And this returns us to where we started. We can now begin to explain how and why we instinctively believe that money is the very incarnation of positive, intrinsic value. We are drawn to believe such a thing not because of human nature (humans are *not* creatures inherently drawn to money) and not because of the nature of money in and of itself (there is nothing in the physical existence of a dollar bill that tells us it possesses intrinsic value). Instead, we come to believe that *money is value* precisely **because we live in a capitalist social order**—that is, we live in a society shaped and governed by the rules of capital, a society in which economic value takes the form of money. In other words, and as we saw in the first section of this chapter, when analyzed closely we see that money is not literally the positive incarnation of value, and yet, within a society structured by the logic of capital, *economic value does take the form of money*. Capitalism itself depends on, just as it also brings about, the idea of *money as value*.

Money's functional existence in a capitalist society therefore remains entangled with the (false) notion that money *is* positive, intrinsic value. What money is depends on what it seems to be. Some have described this as the “fetish character” of money, meaning that we treat money *as if* it were value itself. Crucially, this fetish character of money arises not because of a mistake that we make in our dealings with money; it arises because of the very nature of capitalist money.⁷ Money really does take on

⁷ As David McNally details, the very concept of the “fetish object” first arose in history when seventeenth-century British colonial traders in Africa found that some members of local African tribes refused to exchange certain objects for British money. The tribespeople saw no intrinsic value in the money—an utterly reasonable and rational response by people who did not live in social orders governed by the rules of capitalism. Unable to process this choice, the colonists explained it by attributing to the Africans a set of mystical beliefs and practices and by inventing the word “fetish” to describe the objects that the tribespeople

because something is central to our lives doesn't mean it's simple. The computer I'm typing on—today and every day—is made up of solid-state transistors, themselves only made possible by the theory of quantum mechanics. But using my computer daily puts me no closer to grasping quantum mechanics, a field so complex that most physicists don't even understand it. Hence our starting point in tackling money depends on refusing the idea that it is simple just because our use of it seems straightforward.

The Paradox of Money

A deep understanding of money requires grasping it as fully paradoxical. Money is a paradox because of two simultaneous truths about it:

1. Money is not what it seems.

As we will explore in greater detail in this chapter, in our practical experience and daily use of money, it appears to be something other than what it truly is. In this sense, money is like the pencil submerged in water, which appears to us as bent, though it is in fact straight.

2. What money is depends on what it seems to be.

Money is not an illusion; **money is a paradox**. In order to understand money we have to grasp its paradoxical nature. Having shown that money is not what it seems, we will demonstrate that money's distorted appearance is necessary, fundamental, and an essential element of its very nature. In this sense, money is nothing like the pencil submerged in water. The “stick in water” case provides a classic example of *illusion*: the pencil appears bent, but there is nothing about the pencil that partakes of “bentness,” so its appearance proves totally false. The nature of money within capitalism turns out to be quite different from this standard example: *appearing to be other than*

it is proves essential to money's very nature. Pencils appear to be straight most of the time; only when we submerge part of them in water—due to the properties of light refraction through different media—do they appear bent. To make the pencil analogy hold, we would have to find a type of straight pencil that always appeared bent. Money would then be like that object: it always appears to be other than it is, and therefore its appearing as other actually forms a key part of its very nature. If money is not illusion but paradox, then in order to understand money we must grasp its paradoxical nature.

We will now develop each of these points in detail.

Money Is Not What It Seems

When we encounter and use money in our daily lives within a capitalist society, money seems like the very incarnation of economic value—value in its purest form. Any economics textbook will tell you that “money is the medium of exchange,” meaning simply that if you have money, you can “trade it” for commodities. This definition says that money is the “stuff” you use to get the “stuff” you want, and since money is a *universal* means of payment and means of exchange—that is, you can use it to pay for *any* goods or services, to cancel *any* debt or obligation—money thus becomes, in an important sense, the highest form of value. And most of us, most of the time, would prefer to hold value in the form of money. For example, if I offer you the choice of either (a) five iPhones, each with a market value of \$1,000, or (b) \$5,000, you are almost certainly going to choose option (b). Indeed, the only conditions under which you might choose (a) would be if for some reason you knew of a set of market conditions that would allow you to exchange the five iPhones for an amount of money greater than \$5,000. This exception would therefore prove the general rule since in both cases you will prefer the larger amount of value as measured in money terms. You would only choose commodities over money if the commodities were

shoes were lost or worn out. The goal or endpoint for shoe production was ... shoes to wear.

Now let us move forward in time to the present, to a Nike shoe factory in Vietnam. The question of how many shoes to produce, of the systems used to produce them, and even of the location of the factory—all of this falls under the general category of producing shoes to sell on the market for money. Capitalist production is production of goods not for their direct uses but for their exchange-value, which can only be realized in *money*. In other words, the aim of capitalist production is exchange-value (the *price* of the commodity), which can only be realized through the *sale* of the commodity. Stating it directly almost feels vapid, but we need to underscore that the goal of capitalist production is *not* actually the goods themselves; the goal is the money for which they can be sold. The needs of the larger society in terms of shoes to wear are only an indirect concern in the larger calculus of price and profit. If shoe collectors in Los Angeles are willing to buy hundreds of pairs of basketball shoes to stack in their closets, then the shoe factory may produce far more shoes than anyone “needs” in terms of protecting their feet. And if the demand for shoes dries up for some reason, we may find the producer of a commodity destroying the very goods they produced.

The takeaway point here concerns the close relationship, under capitalism, between money and commodities. Where both sociologists and most economists think it possible to sever “economic concerns” from “money matters,” we can see clearly, and in contrast, that the nature of capitalist *production* (the engine of economic activity) entails an intrinsic and indissociable *link* between money and commodities. Capitalism is the production of commodities for the realization of value in the form of money.

This fact proves plain to just about anyone who lives in a capitalist society and pays attention to how things work, because **under the terms of capitalism, the goal is money itself**. We already expressed this point lucidly in our code for capitalist production:

M-C...P...-C'-M'

This code begins and ends with money; commodities, and even the production process itself, turn out to be intermediaries within a process driven by money. We can state the same point in practical terms. In a capitalist social order, workers take jobs in order to earn wages in money. Business owners and entrepreneurs engage in their ventures in the hope that they will bring in profit, which obviously takes the form of money. Investors put their money into various classes of investment vehicles for the express purpose of gaining more money. We can see the specificity of this capitalist code if we focus on the precise nature of the *production* of commodities. Take, for example, the production of shoes.

If we travel back in time to observe the practices of a Native American tribe, we will see that some members had the skills and devoted the time to sewing leather (a “raw material” acquired by other members of the tribe⁶) into shoes. The goal of this process of production was to produce enough shoes to shod the feet of the tribe’s members, and perhaps to have a few pairs of shoes or some raw materials left over in case someone’s

⁶ As part of the production process, the term “raw material” has a precise and counterintuitive economic meaning. “Raw materials” are *inputs* for the production process: they are the original “C” in our code for capitalist production. But this means that “raw materials” are not just found in nature; rather, they are often the product of a previous production process. In the shoe example, leather is not found in nature but must be produced first by hunting and killing an animal, then removing and tanning its hide.

“worth more,” but the measure of their worth is always itself a monetary measure. Even if you chose to hold the commodities for a short period of time, you would be valuing them in terms of money. And in order to *realize* the exchange-value of the commodities, you would need to swap them for money. *Within a capitalist society, value appears in the form of money, while money appears to be value.*

All of this means that money seems to be the positive, substantive manifestation of value itself. Money appears to have a direct, intrinsic value. Movies repeatedly illustrate this point with stories that pivot around the search for, or loss of, a massive sum of money. In almost every case the director makes certain to *show us the money*—usually in the shape of briefcases or duffle bags full of cash, but sometimes in the form of account numbers and balances on a computer screen. The point holds in either case: money appears as the manifestation of positive, intrinsic value. As we encounter money in our daily lives, it repeatedly seems to us that by “having” money, we thereby *hold or possess value*. This notion feels intuitively correct to us, and the orthodox theory of money, a key tenet of modern economics, supports this idea of money.

Dollars and Bricks

Nevertheless, money is not what it seems, and this conceptualization of money as positive, intrinsic value turns out to be false.¹ To understand why the intuitive idea of money as

¹ It’s tempting to think that the intuitive, orthodox account of money as positive, intrinsic value was once true. This is the belief that in the past, money was “sound money,” constituted by commodities like gold, which did have intrinsic value. However, a close look at the historical record proves this to be false: money, even when it took the form of gold and silver, was always a token, a marker or measure of value, but never value itself. Later in this chapter and then in the next, we will see that when gold and silver function as money, they cease to function as commodities (and vice versa).

possessable value is wrong, we can start by seeing that “money” is not a concrete material object, or even a singular entity. In other words, there is no such thing as money in itself, in isolation, or as an elemental particle.

A shoe and a brick are both empirical objects that we can hold, view, and measure. Each has a specific use, and each can have a size, weight, and shape. When placed on scales we may find that the shoe weighs 300 grams and the brick weighs 2 kilograms. We could use a tape measure to generate similar numbers for length, width, and height. But in addition to their physical uses and their physical parameters, both a shoe and a brick may also have exchange-values, market values—that is, prices. Let’s say the shoe has a value/price of \$50, whereas the brick has a value/price of \$0.50. Notice what has occurred here: while we are still focusing on the nature of two empirical objects, two commodities, we have now introduced “dollars,” and therefore we have tacitly introduced money. One way to ask the question “What is money?” would be to rephrase it in the form of the question “*What is a dollar?*”

As this example makes clear, the dollar is a *measure of value* in the same way that grams are a measure of weight and meters are a measure of length. The analogy can be extended in important ways:

1. Just as we can have multiple measures of weight, such as grams and pounds, we can have multiple measures of value, such as dollars and euros.
2. Just as a meaningful comparison of length (e.g., which shoe is bigger?) requires us to measure in the same units (e.g., inches), a meaningful comparison of value/price (which brick is worth/costs more?) requires us to measure value in the same monetary units (e.g., rupees).
3. Just as we can *convert* from one unit of measurement of weight to another (1 kg=2.2 lbs.), we can also *convert* from one

of modern economic thought, treat money as largely superfluous; they distinguish between, on the one hand, the “real economy,” which concerns the production and exchange of commodities, and, on the other hand, “monetary” concerns, which can be ignored. Milton Friedman famously argued that money had no *real* effects on the “real economy.” For Friedman, money must be understood as no more than a “veil” that stands between us and the *real* economy (and sometimes blocks our vision of the latter). Moreover, Friedman understood money as a “*neutral veil*,” not one that hides or distorts. Put simply, this line of reasoning leads straight to the conclusion that money just does not matter that much to modern economics—hence its predominant exclusion from introductory texts.

Both approaches effectively sever money from the fundamental elements of economic activity. The sociological approach studies money practices as rituals almost entirely distinct from economic activity; the economic approach studies economics almost entirely without the presence or importance of money.

Money Is the Point of Capitalist Production

To demonstrate the critical significance of money’s appearance (as positive, intrinsic value), we must start with the fact that within a society shaped by the logic of capital, *economic forces and relations are, by definition, monetary*. In other words, the phrase “monetary economy” is redundant. This means that concrete economic practices (e.g., of production and exchange) in a capitalist society are *money practices*, and there is therefore no way to separate the so-called real economy from money. Money is very much real.

or wrong. To understand money deeply we cannot merely ignore or dismiss these appearances, for while they do not tell us everything we need to know about money, they do tell us something; they are neither “fake” nor nonsense. Here we will try to show how money’s *appearance* as positive, intrinsic value actually reveals something very important—not only about money but also about a capitalist social order. Our hypothesis: what money *appears* to be proves central to its function, its social role, its *nature* as money.

In order to unpack and develop the logic that will substantiate such a claim, we need to start by seeing that the conclusion that money is not what it seems has led to two distinct, but similarly unhelpful, responses. First, some scholars of sociology and anthropology have suggested that money be comprehended as nothing other than a set of *sociocultural conventions*. Money, these scholars suggest, may prove important in telling us something about the meaning-making practices within a particular society, but the study of such practices can be effectively prosecuted quite separately from the analysis of the systems of production, distribution, and exchange of those societies (i.e., economics). On these accounts, money is certainly real, but its reality consists solely in a set of cultural practices, very much akin to practices of religion, sport, art, and so on. Indeed, this approach extends the argument that money is not what it seems by claiming that money “really is” nothing more than a set of cultural practices.

In a contrasting yet complementary move, some scholars of economics have argued that money must be understood as nothing more than a *mere economic convention*. According to these thinkers, money is simply an abstract *representation* of economic value, a symbol of real value—where the latter always takes the form of concrete commodities with intrinsic value. The idea of money as ancillary, as *purely symbolic*, helps to explain why almost all introductory economics textbooks have almost nothing to say about money. These texts, like much

unit of measurement of value/price to another (1 euro=77 rupees).

Notice, of course, that the analogy has crucial limits, and that the relation is *disanalogous* in important ways:

A. Assuming no event alters the physical brick itself, we conclude that it *always* weighs 2 kilograms, but the value/price of the brick might be \$0.50 today and \$0.45 tomorrow. Even though money is the measure of value, the value of the entity that it measures can change (sometimes rapidly and severely) without any physical change occurring. Indeed, **while money is a measure of value, what it measures (value/price) is not itself a physical property.**

B. The conversion between different measures of length and weight do not alter—1 inch always equals 2.54 centimeters—but the exchange rates between different measures of value change all the time—today 1 dollar equals 19 pesos, but tomorrow it might equal 18 or 20 pesos.

Therefore we can conclude that the dollar (and money in general) is a measure of value both like and unlike the meter is a measure of length. The key to seeing why our intuitive grasp of money as the incarnation of intrinsic value proves to be wrong can be found in the bolded sentence in point A. Money measures value, but value itself is not the property of any object, any “thing” at all. Money tends to deceive us, partially because we think we can hold it in our hand just like the shoe or the brick, when in reality money is much more like the meter than the brick. A. Mitchell Innes, one of the first to write perspicaciously about the paradoxical nature of money, put the point this way: “The eye has never seen, nor the hand touched a dollar” (Innes 1914: 155). This radical claim makes a lot of sense now that we have already seen the similarities between a dollar and an inch—no one would ever claim that they had touched or held “47 inches.”

What Is Money?

But what, then, is a dollar? And how do we make sense of ubiquitous claims to have or hold dollars in just the sense that Innes says is impossible? The examples are utterly commonplace: “I’ll give you \$20 to cover my portion of the meal”; “Jeff Bezos has \$175 billion.” These claims sound to us nothing like the ridiculous statement “I have 4 centimeters.” Yet Innes has suggested that, in point of fact, “I have \$20” in the sense that I possess and hold it directly is as nonsensical as “I have 47 inches.”

We might try to overcome this problem by dismissing it as a linguistic oddity. Hence we could say that the claim to “hold dollars” is really a claim to hold objects (commodities) that are worth that much when measured in dollars. The technically false claim to hold a dollar in our hands would just be a quirk of language that applies only to money. That is, if I have a brick in my hand, I say that it *weighs* 5 pounds, but I don’t say I am in possession of 5 pounds. However, when I hold money in my hand, rather than saying the money is *worth* 5 dollars, I simply say, “I have 5 dollars.”

But this effort fails; it cannot solve the riddle of “holding dollars.” The reason is that the parallel will not hold. It’s true that if I have a brick in my hand, I can say that its measure of weight is 5 pounds and its measure of worth is \$0.50. Hence in a certain sense I might be thought to “have \$0.50” because I have a physical object that is worth \$0.50. But this is cheating: we know that there is a big difference between possessing commodities with ideal values (prices) in money, and possessing the money itself. I could own 2 tons of bricks, valued today at \$1,000, but this is in no way the same as holding \$1,000. And the reason is obvious: tomorrow the price of bricks might drop to \$0.25, and I would only be able to sell my 2 tons for \$500. Perhaps the bricks are made in China and I plan to sell them to

Money Is Not a Commodity

We are therefore drawn naturally and logically (if also fitfully) to the conclusion that money is not what it seems: money is not a commodity, and money is not positive, intrinsic economic value. Money is credit/debt, which means **money only exists as a set of social (and often political) relations—relations of trust and reciprocity**. Money only comes into being in social contexts in which one party proves willing to *extend credit* to another party. This, incidentally, helps explain why the only historical instances of the barter of commodities appear *between* cultures foreign to one another, between societies that do not know and do not trust one another. Practices of barter mark not the *origin* of money but its *absence*. In the anthropological record, barter only emerges *after* the appearance of money as credit. Bartering is not what a society did before it invented money; bartering is what two different money societies do when they need to conduct economic transactions in the absence of a *common* money (which is not the same thing as a shortage of cash).

Most importantly, credit is not based on or backed by a primary, intrinsic value; credit is not an “extension” of a prior money as a medium of exchange. Rather, credit comes first; the credit relation is precisely the fundamental money relation. Money never exists as substantive, positive, or intrinsic value, but only ever as a social relation of credit/debt. As we will explore in more detail in Chapter 8, the fact that money is always credit—a claim against some other party—means that money is never “sound”; money as value is always at risk. We therefore reach the conclusion that money is not at all what we think it is.

Money Is Neither Illusion nor Convention

Nevertheless, money is not just an illusion. We will now begin to illustrate and analyze why money’s *appearance*—as positive, intrinsic value—proves to be something much more than false

credit is the most valuable kind of property” (Innes 1913: 392). Money cannot be “sound” in the sense of resting on any sort of intrinsic value; **money is always social, and always relational, because it always involves two parties and a relation to the future** (for repayment of debt). Yet money can surely be more or less sound depending on the quality of the debtor. When, in a recent report, Credit Suisse outlines the importance of so-called “high quality liquid assets,” they are echoing Innes one hundred years later. The fundamental point, both then and now, is that everyone wants much of their money (i.e., their credit) to be held on the most trustworthy debtor. Today that often takes the form of US Treasury bonds.⁴ Money is always a credit held somewhere, a debt owed by someone, and thus we would always prefer to have the most trustworthy debtor. In the case of notes and coins, that debtor is the government itself. As an added benefit, one can always use notes and coins to pay off debts owed to the government itself (i.e., taxes).⁵

⁴ Hence we can quickly explain one contemporary phenomenon that has frustrated and confused many recent commentators: negative-interest-rate bonds. Put simply, if the creditor seems trustworthy enough, you will *pay them* to be your debtor, i.e., in order to have the right to hold a credit against them.

⁵ In modern economies, circulating cash is almost always circulating government debt. The so-called state theory of money emphasizes this point, sometimes to insist that sovereign governments can never run out of money because they can continue to issue IOUs that people will accept, precisely because state debt is the ultimate form of money. However, prior to and alongside government debt, we find other forms of circulating credit and debt instruments. This means that the *state theory* of money depends on a broader *credit theory* of money, as described in this chapter. Both historically and today there have been numerous forms of money (of circulating credit/debt) that were distinct from government debt.

US companies, but tomorrow the US government announces a new tariff on Chinese imports, making the cost of bricks much higher for my potential customers; they will therefore not pay me as much tomorrow as they would have yesterday.

The comparison cannot be between the measure of the brick in pounds and the measure of the brick in dollars because the question is about the nature of the dollar, of money, itself. When I say, “I have \$20,” I am explicitly not saying that I have goods and services that I might, potentially, sell in the future for \$20; I am saying that I have a \$20 bill, or a bank account with \$20 in it. Innes’s claim turns out to be even more radical than it may have first appeared: in addition to suggesting that dollars are like meters (both are *measures*, not material objects), he is also saying that even when you have a \$20 bill in your hand, you still do not directly possess \$20 of value.

What, then, is a \$20 bill or a £5 note? What is money *in itself*—that is, apart from its existence as a measure of value of other things?

Money Is Credit/Debt

We might find a clue to the nature of money by looking at the US \$20 bill or the UK £5 note. On the top of the latter, we find these words: “Bank of England / I promise to pay the bearer on demand the sum of Five Pounds” (see Lanchester 2016). The paradox of money flashes here, written down for all the world to see, since in one sense these words make no sense whatsoever. The £5 note states that its possessor can exchange it for £5. But if I already have £5, why would I want to swap it for £5? *What would that even mean?* And if possessing a £5 note only guarantees that I can swap it for a £5 note, then what is a £5 note to begin with? We seem not to have answered the question, “What’s £5?”

Perhaps the writing on the \$20 bill can clear things up. There we find these words: “This note is legal tender for all debts, public and private.” The \$20 bill defines money as *legal tender*, a technical term for that which is accorded legal status as an instrument capable of extinguishing debt. Money is the thing that allows you to pay off debt. Moreover, as Innes explained clearly more than a century ago, “a credit redeems a debt and nothing else does” (Innes 1914: 154).² In other words, **money is credit**. This means that when we buy or sell, we do not actually exchange one commodity for another commodity. Rather, we exchange a commodity for a credit; “credit and credit alone is money” (Innes 1913: 392). In this context, we must emphasize that credit and debt are opposite sides of the same coin. If you owe me, then I have a credit and you have a debt. **To have money means to have a credit with some other entity that recognizes that credit**, and thereby acknowledges their debt to you. This means that money is always both an asset for one person and a liability for someone else.

One powerful way to explain this key insight is by rethinking the relationship between banks and account holders. The intuitive understanding of money as positive, intrinsic value fits neatly into a standard narrative in which banks play the role of safeguarding “our” money. This story conceives of banks as “intermediaries” between “savers,” who deposit *their* money, and “borrowers,” to whom the bank lends that same money out. In his first book, Keynes absolutely exploded this myth of banks as intermediaries, and yet it still persists in orthodox economic accounts. The central problem with such a narrative is that it assumes that money is like iPhones, a commodity possessing intrinsic value that we then hand over to the bank to hold on our

² There may be unusual circumstances in which an explicit law has been passed rendering certain commodities legal tender, or two parties may enter into a contract that specifies a debt measured in certain commodities or services, but these are exceptions to the general rule that money, not commodities, cancels debt.

behalf. My iPhone is an asset for me, but a liability for no one; it is a commodity, not money.

In actual fact, a deposit account is not the site of positive money—an entity that the bank would “hold” (in the sense of possessing) on my behalf—but a credit we “hold” (in the sense of wielding) against the bank. If we “deposit” money, we make our bank a debtor to us. For example, if I have a checking account with Citibank with a balance of \$300, then \$300 is the amount of credit I have. Citibank is my debtor; *they owe me* that \$300. Indeed, we tend to assume that the bank possesses our money, but the reality turns out to be just the opposite: as every banker knows, deposit accounts are listed as *liabilities* on the balance sheet of a bank. Importantly, but for most, counterintuitively, *loans are a bank’s primary monetary assets*.³ To repeat, money is credit/debt. So when the bank loans us money, we become debtors to the bank, and it gains a credit. Moreover, the inception of the loan is itself *money creation*, as it creates a new asset and liability for the bank, and a new asset and liability for us. This also means that when we deposit money into a bank account, we merely *transfer a credit* from elsewhere, swapping one debtor for another.

By shedding light on banking practices—that is, by understanding deposits as customer credits (bank debts) and loans as bank assets (customer debts)—we can also make more sense out of what often appears to be the most concrete form of money, *cash*. **Coins and notes are credits against the government itself**. Hence we can answer the riddle written on the £5 note: to “pay the bearer the sum of £5” means that the Bank of England is the *debtor*, and whoever holds the bill holds a *credit* of £5 against the UK government. Innes put it best in his original formulation of the credit theory of money: “A first-class

³ In addition to loans, commercial banks have their own “deposit accounts” in the form of central bank reserves. That is, the central bank is the *banker’s bank*, and commercial banks thus have credits on the central bank. We will discuss these points in greater detail in Chapter 8.