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# Making Capital Democratic: A Reconstruction of State, Credit and Finance

by **Robert C. Hockett**

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Before the main text, the reader finds “Acknowledgments” with a large number of names. The first *part* relates to those who are still alive: it is an impressive list of mostly heterodox economists and critically minded theorists. The *second* part contains the names of those theorists who are no longer among the living: among them are “Herr Doktor Karl Marx”, Rosa Luxemburg, Rudolf Hilferding, but also John Maynard Keynes, and Knut Wicksell, or Léon Walras. Keynes, as we can see from the later development of the text, is valued for the “monetary theory of production”, and for the articulation of “endogeneous money” (here there is even a commonality between Keynes and the Austrians). Just as Wicksell is affirmed for his contribution regarding “bank money” (p. 102).

The mentioned names are not random; they show the paths of the book’s author, that is, his main orientation: some authors also appear later in the book’s text. Without a doubt, there are major (theoretical and practical) differences between Rosa Luxemburg and Wicksell, but Robert C. Hockett finds it appropriate to treat them as *common* inspirers for his undertaking.

There is another name that must be mentioned immediately because it shapes the relevant stanzas of the discourse in the first part of the book, although it is not mentioned in the “Acknowledgments”: Jean-Jacques Rousseau. Of course, the question immediately arises: what is the role of a thinker like Rousseau in a text that is economic-financial and has a clear ambition to re-articulate “economic fundamentals”?

Hockett, by the way, is not only a professor of Law and Finance, but, as we learn from his biography, an advisor to various eminent senators, an expert who has worked for the Federal Reserve Bank of New York and the International Monetary Fund, among others. Obviously, we are dealing with an author who, besides his inclination for theoretical articulation, also has significant practical work behind him. Moreover, one could

say that in this book, his dual interest is also being tested: *on the one hand* we indeed note theoretical endeavors, *on the other hand* the intention to transform the existing reality marked by monetary orthodoxy.

Besides the above, Rousseau's involvement in the argumentation virtually provokes additional skepticism; the French republican thinker is in many liberal discourses the subject of incessant criticisms that suggest he is a critic of modernity who prepared terrifying "totalitarian projects" in the 20<sup>th</sup> century. How can such a thinker serve in the reconsideration of the financial sphere? Incidentally, it must be said that Hockett also strategically emphasizes a critical stance towards liberalism (he speaks of classical liberalism, sometimes just of liberalism; neoliberalism he only mentions, not entering into a discussion about it). The critique of liberalism is in some places very sharp: thus, in one place, it is qualified as "shameful" that economists influenced by liberal orthodoxy do not see well how bond markets and the mechanism of taxation function (p. 78). In the conclusion, it is even said that liberal orthodoxy is a "dark superstition" (p. 146).

Most importantly, it is claimed that liberalism (thus also in economics) essentially contributed to the loss of the foundation of our communitarian-republican being. That is, liberalism brought about "self-estrangement" in relation to commonality (in one place economic democracy is also mentioned) which is particularly important to Hockett. Thus, he will speak of "inclusive modality of collective deliberating", "public thing" (*res publica*), "shared ends". Furthermore, his conceptual repertoire includes such expressions as "inclusive modality of coordinating our materially productive" activities, or "productive" and "distributive we". Republican determination emphatically emphasizes the figures of "we", and renews the old accusation that "our economy" is impoverished because it is depoliticized, deprived of its mentioned political dimension - the syntagma political economy is anyway predetermined to warn about the reductive procedure that renders "politics" null and void in the context of economizing. Regarding this book, the indicated gap between "the economy" and "our economy" demonstrates this regressive movement. Just as a movement is proposed that has as its destination the appropriation of the alienated position of "we".

Rousseau is invoked here as a thinker who offers testimony, as well as a conceptual apparatus regarding the distinction between two characteristic figures of commonality, namely "association" and "aggregation". He is affirmed as a thinker of great strength who sees much, and Hockett explicitly prefers him over his Anglo-Saxon critics. He even presents a picture that suggests the advantage of German, French, and other European authors for whom it is (perhaps too hastily) said that they not only read Rousseau meticulously, but their liberalism was also to a greater extent determined by republican values than was the case with writers on Anglo-Saxon soil.

In any case, the economic discourse led by liberalism promotes the logic of the *aggregation* of individuals, but not republican *association*. The same discourse ominously favors the "aggregative we" in relation to the "partitive we" which can be invoked with the help of Rousseau - thus also in economic discourse. Hockett thus builds a strong communitarian-collective language aimed at overcoming liberalism in its various variations: "joint we", "shared subjectivity", "internal relations", "we" instead of "several we", finally "sharing citizenship".

Such a calibrated conceptual language helps Hockett to announce a transformation also in relation to “the state” and “government”. These entities indeed also suffer from the simplification of associativity to aggregation, that is, they are nothing but the next modulation of the already mentioned processes of “self-estrangement”. Ontologically and methodologically, these actions imply both a critique of atomistic individualism and the preparation of the ground regarding the problematic of “collective action”. I only anticipate that this much-discussed problem, namely, how collective action comes about between those who are individualized, opens the door to another dimension that can be revealed in significant places in the book: behind economic categories, the *agential-constitutive* role of the collectivity is ultimately recognized. We could interpret this as meaning that instead of a focal point on determinations arising from natural laws which traditionally serve as a reference framework for economizing, here *collective constructionism* is at the center of attention. Finally, such an endeavor transforms literally every economic category, thus also the economic logic of “stock-flow consistency” which is misunderstood, the meaning of intersubjectivity, as well as such figures as the contract which is so celebrated in liberal economic discourse.

Interpreting the state as a “common project” Hockett forges paths towards a re-interpretation of the phenomenon of money which should become “our money”, that is, return to us who are active agents with economic resources. It is even said (almost in a theological manner) that both state and money are nothing but our “emanations” (p. 20), which, of course, “monetary orthodoxy” neither sees nor can see. Or, it is claimed that instead of the notion that money is tied to metallic substances, thus to something natural that guarantees the authority of money, it is merely an “emanational” “form” of commonality. The author of the book in certain places reminds us of the dynamics of monetary history, but the outcome is clear even without historical considerations: there is no inherent authoritativeness of the metallic substance of money, or its representatives.

For Hockett, monetary history confirms the constitutiveness of the public sphere regarding economic activities: hence arises the dematerialization of the phenomenon of money, that is, the relativization of “material forms of money” in the sense that money is essentially “only” “represented claims” (p. 70). Thus, paper money is also interpreted through the necessity to register the incurred obligatedness, more precisely to socially memorialize it. Consequently, the author pulls the concept of money into the register of recording/memorization which enables the stabilization of accountability in the sequence of claims and obligatedness. Hockett belongs to a tradition that creates unity between the state (that is, “our political selves”) and money, with him assigning robust attributes of commonality. That is, he strictly derives both state and money from republican community. To this logic finally belongs also the fact that the author of the book sees constitutive moments of money in phenomena such as “mutual horizontal obligation” and “discharging”. He actually thinks that there is a standard error regarding the interpretation of money, namely, confusing the “form” and the “normative and legal substance”.

It is worth developing reflection by the principle of analogy: a certain “normativism” emerges during the collective articulation of community - it is authoritative also regarding the configuration of money. Hockett simply considers that seemingly simple “horizontal” acts such as obligation and discharging in fact characterize the dynamic

being of money. These are repeated acts that belong to the register of commonality, and republican commonality is embodied in them, and these same acts enable the contemplation of the phenomenon of intersubjective accountability of market economizing. Based on this, it is claimed that we live within frameworks of “exchange economy” which is nothing but “horizontal covenant economics”. Thus, the procedure of demystifying money leads to the conclusion that money is a “shared means of keeping contracts” (p. 27). Thus, “wealth”, therefore also a traditional economic category, is viewed in the light of mutual obligatedness. In liberal discourse, the sacrosanct category “voluntary transactions” here is “reciprocal exchanges of promissory obligations” (p. 41). With this, Hockett formulates an answer also to the classical indication of Hyman Minsky: anyone can “create money”, the decisive question is who will “accept” it.

Here we can further theoretically situate Hockett’s intentions! He points out that an equal sign should be placed between the “debt theory of money” and the “credit theory of money”, to which he adds the “state theory of money”. Put differently, money is firmly tied to debt, and to the act of discharging: as we see, we have here no background of natural regularities but only *inter-agential* relations that frame monetary moments. Constructionism, as I already noted a moment ago, manifests itself as an expression of the existence of relations regarding obligation that arise not from some natural anchor, but as it is said, *ex nihilo* (Hockett, by the way, treating dimensions of monetary policy as a co-author wrote a book with the paradigmatic title: *Money from Nothing*, Robert Hockett and Aaron James 2020).

Every economic phenomenon, according to such an orientation, is created by various acts, that is, *emerges* on the basis of productive and distributive community. Behind the being of money there are only acts of postulated obligatedness and promises (“our” acts, but also acts of the FED) which have meaning in a republican political economy. Instead of viewing the signs on money as expressions of some superhuman, or meta-communal naturalness, they should be seen as an appearance of commonality; Hockett strongly emphasizes the communal agent-based order which is manifested in the fact that the “we” is reflected in “self-obligating” and “self-legislation”. State and government as “common projects” (on the other side of liberalism) represent only the frameworks within which commonality is governed. Just as through the instrumentarium of government, acts of payment are managed which also deserve a dose of demystification. The sharpened claim that money is the embodiment of “communism” (money is literally communist, we read in one place) stems from this interpreted commonality which enables the existence of any decentralized economy at all. The distinction between public money and private money exists, but this difference is woven into the communal intersubjectivity of economic acts.

With these moves, the author of the book creates a basis for envisaging the operationalization of money in the financial sphere. Instead of narrowed face-to-face relations, Hockett draws “our economy” based on the model of a “three-person economy”. Into this framework, he places arguments that must explain how money arises which standardly should be presented as a unit of account and unit of measurement.

But Hockett simultaneously realizes the deconstruction of another canonical liberal moment: financial intermediation between saving and “dissaving” as a central economic phenomenon. The standard argumentation develops, namely, in the following

way: economic reality is divided into two poles. On *one* side are those who position themselves in the role of “savers” of financial instruments who are inactive, on the *other* side are those who are “dis-savers”, that is, those who need to receive surplus in order to economize. Financial institutions appear between these parties mediating between them, allocating surplus to those who need it.

For Hockett, this is a veritable myth: “the intermediated scarce private myth” (p. 53). This mythical figure presupposes a primordial impotence/passivity of government which is predestined to borrow financial means from others: somewhat more precisely, Hockett here criticizes (based on the aforementioned argumentations) the liberally projected limitation of public finance. The same form of (supposedly parasitic) finance is accused of structurally displacing private finance, or of irresponsibly heating up inflation by expanding its infrastructure. But one should *not* see here the *intermediary* work of finance, because the metaphorology of financial intermediation is wrong: finance capital does not appear in the perspective of “intermediation”, which ascribes a passive role to this form of capital. Rather - let’s remember the indications regarding the fact that behind economic phenomena there always lie certain acts - financial capital is merely “generalized” (p. 77), that is, it is formed by creation and with the help of the always constitutive public sphere. In this way, the “issuing” and emission of money which with credit channels realizes productive purposes is understood not based on the figure of intermediation, but based on the primordial creative act that gains meaning in the context of the public domain.

Thus, the critique towards liberal patterns is strengthened, namely blueprints arrangements which in fact wrongly separate credit and money. Just as the same arrangements inadequately “conflate” the resources and the “claims upon resources” (p. 55). Based on this, Hockett can claim that contrary to the liberal intentions, public finance is *creative*, it absorbs-channels money that comes “from nothing” allocating capital through various mechanisms. Thus, for him (which is, of course, provocative in relation to liberal economic philosophy) the essential fact is that *public finance finances private finance*, or put differently, public finances private productive undertakings (about all this, p. 66).

Hockett, furthermore, insists that liberal economists do recognize the fact that money is not only a “medium of exchange”, but also a “store of value”. But they also show a reflexive deficit when they do not understand well the *temporality* of this aspect of “store of value”. The “inter-temporal” determinedness of money - this again emphasizes what Hockett wants: credit as a meta-framework of money which simultaneously shows the temporal determinants of money. He simultaneously builds a bridge towards the phenomenon that both Marx and Keynes called the “monetary theory of production”. Namely, in such a context, money can be placed which is directed towards “our”, “common” productive potentials. That is, money appears as a “claim upon current resources that you can then use to produce more future resources” (p. 60). This means, furthermore, that the phenomenon of credit is not ascribed to money but money *per se* is by its substance phenomena of credit. There exists thereby a *productive component* of economizing which the author anyway wants to emphasize: the credit determination of money is understood in a “productively salient context”, money is credit, but in an originally productive context.

Let's not forget the fact that Hockett wants a transformation of the concept of capital according to his already presented purposes. The author of the book also complains about the procedure concerning the concept of capital: in liberal discourse, it is forgotten that "finance" and "capital" cannot be simplified to physical entities. The situation is further obscured by the fact that the mentioned discourse holds to a certain, that is, reductive meaning of scarcity: however, the point is that one should distinguish financial capital (another name: credit-money) which connects to *infinity*, and physical capital which is indeed burdened with elements of *scarcity*. The denaturalization of money, as well as the financial sphere, leads Hockett to nevertheless recognize one "naturally" determined limit that affects banks that offer credits, that is, develop different forms of credit-money: the horizon of profitability.

Still, the most important consequence is that the emphasis is placed on the constitutive features of public capital, on "publicly generated investment capital" (p. 99), on "monetized public investment capital change" (p. 102), "publicly managing public-investment flows" (p. 117). Thus, the intention is fulfilled to view the financial and banking sphere (as well as capital markets) in a perspective in which the public is the true "franchisor" (p. 119). This, according to Hockett's assessment, can also be demonstrated in crisis episodes, such as in 2007 when there was poor handling of the allocation of *public capital*; according to his formulation, in such situations, the "modulatory" role of the central bank takes precedence at the expense of the "allocative function" - we could interpret this as neoliberalism having destroyed the allocative logic that governs the moments of public capital.

Hockett, following these paths, wants to shed light on how monetary policy functions in capitalism, and to show that technical categories such as liabilities of banks are in fact operationalized forms of public capital. The presented theoretical framework serves the author to speak about the way the FED shapes monetary policy, and how secondary banks function in an economy that takes seriously the significance of public capital. Banks are presented based on a phenomenon that is unusual here: "outsourcing". It is about banks gaining a meaning for existence, but only by addressing this act of "outsourcing" based on which they allocate publicly generated capital - Hockett persists here as well regarding pointing out the public aspects of economizing, this time insisting on the necessity to reformulate the very concept of capital as such in the light of republican communalism.

At this point, Hockett turns attention to what he announced, namely, the classical problematic of collective action which is significant regarding coordination in a system oriented by the logic of decentralized markets. How to arrive at a truly active form of collective agency that is more than a mere wishful projection? In this context ("recursive collective action") Hockett thematizes such phenomena as inflation, deflation, asset price bubble, underinvestment or overspeculation. In doing so, he particularly emphasizes two problems that frame the mentioned dysfunctional phenomena;

1) "controllability" - at the collective level, "irrational" phenomena surface, deficient coordination of individual strategies leads to regressions (Hockett thinks that due to a special position and "unitariness" only the central bank is not subject to the repeated problem of collective action, p. 116).

2) “capturability” - inadequate coordination leads to “underinvestment” regarding the infrastructure on which economizing depends.

Hockett’s reformist proposal, which wants to ascribe full rank to public capital, develops towards deeply transforming the monetary-financial system. The diagnosis consists in the fact that various forms of private capital usurp the stock of public capital. The author of the book also offers institutional changes that respect the potentials not only of the FED but also of regional forms of the same central bank: his concrete proposal is the National Reconstruction and Continuous Development Act which was considered by the Congress in 2022.

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If we want to comment on Hockett’s undertaking, we can first recall an old distinction derived from Schumpeter: theories about money either connect in relation to the commodity (“Herr Doktor Karl Marx”), or they center on the “claim” which is established in a series of economic acts (Joseph A. Schumpeter 1917 and Schumpeter 1956 cited by Tony Lawson 2016). Schumpeter considered that the respective theories are literally incompatible, Hockett would perhaps be less categorical - I am thinking of his ecumenical use of sources. Still, he clearly positions himself in the context of “claim-based” theory, as we could see.

Theories of money can also be divided based on whether they start from the premise that the genesis of money leads to the *objective emergence* of money, thus *between* owners of commodities, or they ascribe a constitutive role to the state regarding the creation of money. In the *first* camp belongs again Marx (even the Austrians who find themselves in this regard in an interesting community with the author of *Capital*), on the *second* list we see chartalism and its contemporary forms, as well as Modern Monetary Theory: finally, in it too, the state has a specific place regarding the creation of money.

Hockett’s argumentation contains analogous aspects in relation to the reasoning of Modern Monetary Theory. In this book, there is no reference to this theory, but there are reflections in the already mentioned book that Hockett wrote as a co-author (*Money from Nothing, ibid.*): here it is said that the co-authors feel like “fellow travellers” in relation to the respective theory which also made a breakthrough in relation to the regime of public aspects of money. But simultaneously they also place reservations: MMT is merely an “observation”, a set of intervention, without a coherent theoretical approach that should further deepen the instrumentarium and maneuvering space of the central bank.

Accordingly, one should not equate Hockett’s republican endeavors with the interventionist ambition of MMT. Still, the theoretical positionings contain certain parallels; what has been indicated many times as the problematic positioning of the state as a constituent, as well as the possibility of generalizing the particular American situation in relation to the international scene, also affects Hockett. Reformism here implies that in his picture of the world, the antagonistic relations of capitalism do not appear. This, however, does not diminish the value of his engaged, theoretically articulated undertaking to republicanize the monetary-financial sphere, and through that, economizing itself.

## References

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