MICHEL AGLIETTA AND HIS VIEW OF MONETARY THEORY

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Which mechanisms ensure stability in an economic system? And which destabilise it? Despite the fact that this is one of the most fundamental issues of economic theory, answers to it differ significantly in individual schools of economic thought. Whereas neo-classicists see the causative agent for a trend to equilibrium as lying in perfect competition, Keynesian economists ascribe the role of regulator to the state. In the mid-1970s two new schools of economic analysis appeared in France, attempting to answer this question in a new and original way; a theory of economic disequilibrium and regulation theory.

The theory of economic disequilibrium casts doubt upon one of the basic pillars of Walras's theory of general economic equilibrium, this being the existence of an auctioneer. It reasons through the necessity for trades at disequilibrium prices and builds the bases of non-Walras economics.

As regards regulation theory, some economists place it among variants on Keynesianism. Such a classification would however be incorrect, because the theoretical approach offers a "new research programme" begun in 1976 with the publication of Michel Aglietta's dissertation work; Régulation et crises du capitalisme, l' expérience des Etats Unis.

Michel Aglietta is one of today's leading French economists. He was born on 18 February 1938. After finishing l'Ecole Polytechnique he graduated at the prestigious French university Ecole National de la Statistique et de l'Administration Economique (ENSAE). He then worked as a finance officer at INSEE, later moving on to become a guest professor at the Federal Reserve Bank of New York. At present he lectures on economic theory at the Université de Paris X – Nanterre and also acts as a consultant to the Banque de France. In his scientific-research work he focuses on solving problems in monetary theory, financial globalisation and economic growth from a long-term perspective. It is then only natural that in doing so he thoroughly respects the basic methodological principles of regulation theory, since he is one of its main proponents.

The most important methodological principle of regulation theory is its rejection of examining economic movement outside of real time, ahistorically. This school of economic thought emphasises the importance of rules and social relations in analysing the functioning of an economy. By the fact that it takes into consideration history and social relations it places an antithesis at the door of orthodox economics and is anathema particularly to adherents of the theory of general economic equilibrium, who in their analysis work purely from the principle of individual interest, the rationality of which intrudes upon the whole of society.

According to proponents of regulation theory, any economic phenomenon can be understood and explained only by taking into consideration the system of regulation as a whole, meaning the way in which the determinant structure of society with its general laws is reproduced. Individual systems of regulation differ from one another according to the way in which the structures of the given economic system correct disequilibria and maintain a certain coherence between elements of the economic system.

Regulation theory is devoted to examining the development of capitalist society. In this it differentiates between two different forms of regulation:

- *competition regulation, which dominated up until the crisis of 1929. This concerns an economic system where businesses compete via prices and fight against one another in order to gain markets,*
- *monopolistic regulation (in some works also termed Fordist), corresponding to an economic system in which businesses plan their future. Competition here takes place via product differentiation and investments in marketing and advertising.*

Two versions of money in one school: Aglietta and Lipietz

All regulation theorists agree upon the fact that money plays a fundamental role in both individual and collective behaviour, therefore they take money to be a central institution. They consider money as a basic socio-economic relation. In interpreting it however Lipietz works from Marx's labour theory of value, while Aglietta, together with Orléan, have the intention of building a monetary theory that would replace it. Aglietta and Orléan see their predecessors as the anthropologist

Marcel Maussa and the economist Fran_ois Simiand, who in the inter-war years conducted an excellent dialogue on the essence of money. They both presumed that for a full understanding of this monetary phenomenon one cannot be limited merely to the field of economics, but rather that it is necessary to make use of the views and contribution of various social sciences.

In formulating his monetary theory Lipietz relies in particular on the Marx's Grundrisse. In the "captivity" of these works he then defines the relation linking the hidden reality (i.e. the essence) and the apparent reality (i.e. the form appearing on the surface of reality), which economic subjects perceive, i.e. the world of prices and profits.

In contrast to this, Aglietta and Orléan, who together published the first integrated interpretation of their concept of theory of money in 1982 [1;1982], they consider the forms of value as the manner of the existence of the value itself. Therefore, in their view, it is not necessary to make a difference between the monetary relation (by means of which the value is expressed) and the value as such. They consider this to be fundamental. They draw attention to the fact that Lipietz's approach makes it possible to work from bartering in an interpretation of the essence of money. Aglietta and Orléan see this conception as wrong. In their view, value did not exist before the exchange of goods. Therefore it is necessary to abandon the postulate "the essence of value" (founded on work or utility), which would have existed before an exchange of goods. Consequently economic categories and relations, for example economic rationality, the differentiation of the private and social sphere, or the possibility to objectivise trade relations, etc., cannot appear before money. It is money that enables the objectivisation of private rationality, thereby enabling the occurrence of a private and social sphere. Therefore it is necessary to view a monetary relation as a basic socioeconomic relation.

According to Aglietta, it is not possible to work from the term value in constructing a monetary theory. In the theory of value the role of money is limited only to the function of an instrument facilitating the exchange of goods. The approach Aglietta proposes is in contradiction with the idea of "natural" comparability existing before monetary exchange. For him, the objective dependencies brought about by the social division of labour are in themselves insufficient for stable social links to be created. In order that firm links are created between members in society, determining the place of everyone in it, and also both their rights and obligations, the society's members must have something in common – money. Money is then not an instrument, but rather a socially recognised form of market relations on the basis of which everyone finds their way in economic order. In other words, money is an expression of societal integrity.

In a market economy decisions on production depend on the private wishes of individual economic subjects. In the final result however they must be recognised by society – meaning that either it buys or does not buy the given goods. In choosing a production programme economic subjects are then exposed to a great deal of uncertainty, they must always reckon with failure. In this regard Aglietta's approach differs from both neo-classical theory, which considers economic subjects as sovereign beings, as well as from Marxist theory, which presumes the existence of abstract homogenous labour, enabling the execution of quantification before exchange. In Aglietta's theory money is a process of socialisation, which does not presuppose any social essence (utility value or other value).

In his last monographic work from the field of monetary theory [6;2002] Aglietta analyses in greater depth the influence of the social division of labour on the behaviour of economic subjects in a market economy. In it he says that the social division of labour in a market economy leads to the isolation of individual economic subjects. These become independent from one another. At the same time each economic subject becomes dependent on others in a completely unclear manner, because collective activity in it arises as an unintentional result of the free will of all economic subjects. Consequently, extreme pressure arises, taking on the form of uncertainty. This is because a market economy does not recognise such mechanisms existing in a society founded on traditions – for example, relations of solidarity between close people – thanks to which individual economic subjects in the case of difficulties find a certain refuge.

In Aglietta's view, for a stable social order to be created on the basis of the social division of labour, i.e. on the basis of a relationship oriented exclusively on the autonomy of individuals, it is necessary that this extreme pressure, by which the division of labour presses on individual economic subjects, be mitigated. This need takes on a specific form in a market economy, and that is wealth.

In this regard we cannot pass over Keynes, in whose works we find similar considerations when he analyses the category of precautionary motive. In Aglietta's understanding however wealth is everything that is liquid, meaning that which others absolutely wish. In other words it is solely money. This definition of wealth then differs considerably from that of Keynes. The picture of an economic subject in a market economy as painted by Aglietta in his monetary theory is greatly removed from the idea connected with the term homo economicus. Since Aglietta's economic subject continually feels the need for recognition by others, he is far from independent and sovereign in his decisions. He is nonetheless able, at least temporarily, to overcome his isolation, thanks to so-called mimesis.

The term mimesis has its origins in Greek and is commonly used in biology for describing the protective abilities of some animals to imitate other animals. Aglietta introduces this into economic theory because he believes that without it it is not possible to define rational behaviour of economic subjects in a market economy. This concerns the fact that each market participant in formulating his anticipations endeavours first and foremost to interpret the information available to him. In doing so however he realises that he lives in a world full of uncertainty and therefore his interpretation of the information need not necessarily be correct. He acknowledges that the other market participants may have better information on its development. In such a situation rational behaviour of an economic subject will lie in the economic subject formulating his anticipations as a combination of the result of his own information and judgement and the result of his imitating others. In this understanding mimesis may also be understood as a process of disseminating information.

It may happen that all economic subjects completely lose confidence in their own judgement. In this case mimesis transforms into a panic. Markets then cannot come into a state of equilibrium and only an intervention from some outside authority can provide economic subjects certain orientation points. In this Aglietta sees the phenomenon of the information paradox: in financial markets order and chaos are infinitely close.

In building his monetary theory Aglietta sees money as a social relation having two sides. The first side is necessity, caused by economic subjects' need to overcome isolation, brought about by the development of the social division of labour. The other side of money as a social relation is trust. Particularly in his last monograph from the field of monetary theory [6;2002] Aglietta gives emphasis to the fact that the acceptance of money is founded on trust. The financial liberalisation we have witnessed in modern market economies means, among inter alia, that there is no longer a central banker. Money is endogenous and created by monetary institutions at the urging of private economic subjects.

Monetary institutions are not changeless. Each group of market competitors endeavours to transform the rules for issuing money in its favour. This process, over the course of which certain groups display distrust in monetary rules apparently, to them, too far removed from their interests, Aglietta terms "money competition". In the case of it becoming too harsh, social tension arises, manifested in the form of a distrust in money. This dimension in monetary deregulation may even result in the destruction of the monetary relation. This situation can be said to occur in hyperinflation crises.

Transformation of the international monetary system

In his research Aglietta pays considerable attention also to the issue of the international monetary system [3; 1997]. He considers the 1970's to have been the most important turning point in its post-war development. In this there is nothing unusual. However, more remarkable is the fact that Aglietta sees the 1970's as a turnaround, characterised by the transition from an international monetary system controlled by states to a system controlled by markets. In his view economic policy goals in the 1950's and 60's were expressed at the national level. In the framework of development founded on national bases we can speak of Keynesian macroeconomic regulation, meaning a certain primacy of politics above the accumulation of capital through the fact that it becomes a means directing economic growth towards the aims of raising the living standard of waged workers. The international monetary system is compatible with international relations. It advances trade before the transfer of capital.

In the framework of the Bretton-Woods international monetary system economic policies were coordinated at the international level by means of adhering to generally accepted rules. In the 1970's however precisely the opposite occurred. The role of coordinator was taken over by markets themselves. Each country began to set its own monetary policy targets. International assessment of the type of monetary policy chosen by a country is done by means of capital markets, in particular via the foreign-exchange market. Aglietta sees in this the essence of a great turnaround.

Floating exchange rates have, according to Aglietta, become a means of adaptation and national monetary policies have become elements by means of which macroeconomic equilibrium is achieved. In his view the key to establishing macroeconomic equilibrium lies in managing money supplies and the laws of its development, which depends on the central bank. The logical result of this transformation is then the need for the central bank's independence from the government.

During the 1960s the dominant principle for governing economic policy was the "policy mix", ie a combination of monetary, fiscal and possibly also structural policies aimed at realising social and national goals. In Aglietta's view this is not the case today and competitiveness is becoming the new synthesising principle of economic policies.

Aglietta is convinced that the absence of the market's ability for self-regulation brings about monetary instability, which in turn has negative economic consequences. These can lead to the situation where financial society itself (ie the main centres of economic and financial power, such as the large insurance companies or pension funds) will require order. Therefore a return is needed towards certain coordination policies, particularly in the monetary field, where this need is most pressing. In this regard, Aglietta feels that the central issue is to find a way of regulation able to reduce the degree of instability through greater monetary cooperation, founded on a principle of systematic cooperation and joint responsibility. It will therefore again be necessary to find a certain form of institutionalised monetary cooperation. This must be compatible with the postulate according to which the logic of the market remains dominant. This does not then in any way mean a return to Keynesianism.

Literature:

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