6. Varieties of currency nationalization and denationalization

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INTRODUCTION

Friedrich Hayek authored the concept of monetary nationalism in his polemics against the Keynesian idea of macroeconomic management by applying the tools of fiscal and monetary policy in late 1930s: 'by Monetary Nationalism I mean the doctrine that a country's share in the world's supply of money should *not* be left to be determined by the same principles and the same mechanism as those which determine the relative amounts of money in its different regions or localities' (Hayek, 1937, p. 4). Institutionally, monetary nationalism is represented by independent national currencies, which are produced under the control of central banks. The central bank of each state implements a monetary monopoly. This monopoly means the privileged position of the national currency, which has the status of sole legal tender in the territory of the state.

Under the monetary nationalist system, the process of adjustment to relative changes in international demand can proceed by way of relative changes in the currency values, administrated by the central bank, not through actual money transfers. Such discretionary adjustments of the currency value were not possible under the gold standard regime. Therefore, Hayek considered the gold standard as the internationalist antithesis of monetary nationalism (without explicitly using the term 'monetary internationalism'), taming or neutralizing the potential of monetary nationalism that is inherent in the monetary monopoly of the state. For Hayek, the greatest asset of currency is its stability. Considering monetary nationalism as a major obstacle to stability, Hayek considered it as the largest defect of 'really existing capitalism'.

However, he did not provide a satisfactory analysis of why 'really existing capitalism' did stumble over this obstacle. The reason is that his monetary theory is purely economic, limiting the functions of money to a medium of exchange, a store of value and a unit of accounting. However, in real social life, money may assume many more functions, including that of a tool of developmental policies (in the underdeveloped countries) and that of a symbol of national unity, which needs sociological analysis (I do not attempt to present a complete list). While purely economic functions of money are universal, its functions as a tool of developmental economic policies and symbol of nationhood are modern because socio-economic underdevelopment[1] and the emergence of nations as new types of 'imagined community' (Anderson, 1983/2016) are specifically modern phenomena. Use of money as a tool of developmental

[1] There was no such issue when all populations on the Earth were stuck in the 'Malthusian trap' (see, e.g., Oded, 2011).

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policy is discussed in other chapters of this book, which encompass monetary nationalism as part of the broader phenomenon of economic nationalism.[2]

In this chapter, I focus on the contribution of money to the building of a nation's community by becoming the symbol of national identity, along with the anthem and coat of arms ('one nation – one money'). Such a function can be performed only by having a national currency issued by the government of a nation state, claiming and successfully implementing its monetary monopoly together with the Weberian monopoly of the legitimate use of physical force within its territory. This aspect of monetary nationalism is analysed in the growing body of literature, produced mainly by sociologists and researchers in the interdisciplinary field known as international political economy (Dodd, 1995, 2001; Gilbert, 2005; Gilbert & Helleiner, 1999; Helleiner, 2003a, 2003b, 2006; Helleiner & Pickel, 2005; Kaelberer, 2005, 2010; Kirshner 2003; Lauer, 2008; Meier-Pesti & Kirchler, 2003; Müller-Peters, 1998; Peebles, 2008; Penrose, 2011; Penrose & Cumming 2011; Papadopoulos, 2015; Sørensen, 2011, 2016; Unwin & Hewitt, 2001; Wallach, 2011).

Based on these contributions, the aim of this chapter is to provide a historical sociological analysis of how economic and political developments created territorial currencies that could perform the supervenient function of the symbol of national unity. I also trace contradictions (and their attempted solutions) between purely economic and supervenient social and political functions of national currencies during nearly two centuries of transformations of international monetary regimes, including the consolidation of the gold standard regime in the 19th century, its crisis in the 1930s, the era of the Bretton Woods system, and the floating exchange regime of the present. In this discussion, I attempt to pinpoint the causes of the recent decline of monetary nationalism, with the ongoing mass extinctions of national currencies of member states of the European Union (EU) presenting their most spectacular manifestation.

My discussion is guided by the following working definition of monetary nationalism: the conviction shared by ruling elites or broad populations of modern nation states that a national currency is a necessary attribute of a 'normal' nation state, with its complete sovereignty including the monopoly over issuing money notes, and the right and power to effectively enforce their use as sole legal tender in their own territory. This definition is broader than Hayek's idea of monetary nationalism. Hayek tendentially identifies it with the Keynesian policy of fiat currency devaluation to keep macroeconomic balance. According to my analysis, monetary nationalism is a condition for the possibility of such policies but does not necessarily lead to them. The conviction as described above provides legitimation for institutional arrangements (the central bank as implementer of monetary monopoly) for the realization of monetary nationalist policies in Hayek's sense.

It should also be noted that my definition includes only state monopoly issuing money notes, with the right and power to effectively enforce their use as sole legal tender in their own territory; although sometimes, for the sake of brevity, I will refer to monetary nationalism as the conviction that the nation state's monetary monopoly is simply good, necessary or desirable. Cash or currency in the physical form of banknotes or coins is not the only form of money. Economists (see, e.g., Blanchard & Johnson, 2013) distinguish narrow (M0 and M1)

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[2] See the chapters by Andreas Pickel, Ivan T. Berend, Katharina Bluhm and Mihai Varga, Ben Clift, Thomas Fetzer, and others. Chapter 15 by Dóra Piroska on financial nationalism and banking provides in-depth analysis of the important aspects of monetary nationalism after the global financial crisis in 2008.

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and broad (M2, M3, M4) money, considering liquidity as narrow money, while broad money also includes less liquid financial assets (e.g., long-term deposits and debt securities). Private banks can increase the amount of broad money by giving credits in excess of their liquidity assets. Central banks in capitalist (or free market economy) countries impose more or less strict regulations on bank credit policies, thereby managing the supply of money in the broad sense. However, in capitalist or free market economies, the state does not have a monopoly over banking or credit provision, which would mean a complete or all-encompassing monetary monopoly of the state. Such a monopoly is obtained in the socialist state economies, which remain as special cases outside the scope of this chapter for reasons of space.

I begin with a section on the economic, technological and political conditions for making the claim for state monetary monopoly and its effective enforcement possible. They are featured as part of the rise of modern capitalism. In this section, I am most indebted to Fernand Braudel (1967–1979 / 1982–1984) and Max Weber (1923/1950).

The next section discusses the compromise between monetary nationalism and internationalism under the gold standard regime. This section draws upon Eric Helleiner's (2003a) pioneering analysis of the symbolic functions of territorial currencies. However, unlike this author, I am concentrating on national currency, whereas Helleiner focuses on territorial currency, which is a broader phenomenon. Therefore, he does not explicitly use the concept of monetary nationalism, although his analysis is highly relevant and illuminating for my issue. To explain our difference in emphasis by example, the euro is not a national currency, unless the European nation emerges in some more or less distant future. However, it is a typical territorial currency because accession to the eurozone includes the use of the euro as the sole legal tender in the territory of a new member state. The recent creation of the eurozone and possible emergence of further monetary unions in no way means the end or decline of territorial currencies, although they surely mean the demise of many particular monetary nationalisms. Very differently, the spread of digital cryptocurrencies would undermine not only monetary nationalism but also territorial currencies as such, leading not only to the denationalization but also the deterritorialization (or exterritorialization) of money.

The following section is about the unleashing of monetary nationalism after the gold-standard regime collapsed, the new taming during the Bretton Woods era, the undermining of monetary nationalism by the success of Keynesian macroeconomic management, and its ultimate self-discrediting in the era of floating exchange rates after 1971.

In the final section, I close with an attempted diagnosis of the overall character of the contemporary post-nationalist international monetary regime, describing it as imperialist. Although this diagnosis may look (at first glance) like a reanimation of Vladimir Lenin's (1917/2018) nearly forgotten analysis of contemporary capitalism as 'imperialism', I am in fact drawing on the work on the contemporary Austrian school, continuing Hayek's critical analysis of the really existing capitalism. In this context, I am coming back to seminal Hayek works on monetary nationalism in answering the last question: can the recent emergence of digital currencies be considered as a fulfilment of Hayek's dream of ultimate denationalization and deterritorialization of money? After all, some observers call Bitcoin and its like 'Hayek's money' (Sanz Bas, 2020).

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THE RISE OF CAPITALISM AND THE TERRITORIALIZATION OF CURRENCIES

Jean Bodin (1577/1992) was the first Western political thinker to argue that sovereigns should be exclusive issuers of currency in the territories under their authority. But in reality, until the 19th century, there were no European polities where currency monopoly by the state was implemented or even attempted. Kings (or other top political authorities) claimed and implemented monopolies over minting, prosecuting counterfeiters who fabricated coins bearing the king's stamp that certified whether they had the proper weight and purity. Counterfeiters made profits by producing coins containing a smaller amount of the precious metal than indicated by their face value, while kings struggled to keep for themselves the right to increase their seigniorage revenue by debasing their own coins.

However, European rulers did not attempt to make coins bearing their stamps as the sole legitimate tender or the payment means for taxes as well as private and public debts. Until the 19th century, many different currencies freely co-circulated in all European countries, with silver and gold coins issued by foreign sovereigns accepted on a par with those minted by domestic governments (Hayek, 1976/1990, pp. 28–36; Helleiner, 2003a, pp. 19–31). The minting of small-denomination coins from copper or bronze by merchants or local municipalities was tolerated. Such currencies were not even considered as real money but only as mere circulation tokens, because money was by definition identified as specific, most-liquid commodities (such as silver and gold in early modern Europe). This also applies to polities that were absolute monarchies according to their written or unwritten constitutional laws, meaning the absence of any legal limitations on a monarch's authority, including supreme legislative, executive and judicial power. However, according to a famous distinction made by Michael Mann (1984), this was only despotic power to make arbitrary decisions at the top, but not infrastructural power to uniformly implement them down to the grassroots level over all territories under the claimed sovereignty of monarchs.

Before enforcing the obligatory use of the currency issued by them as sole legal tender, sovereigns faced another challenge: to transform polities under their rule into a Weberian state, corresponding to the famous definition of the state by Max Weber (1922/1978, p. 54): 'a compulsory political organization with continuous operations (*politischer Anstaltsbetrieb*) will be called a "state" insofar as its administrative staff successfully upholds the claim to the *monopoly* of the *legitimate* use of physical force in the enforcement of its order'. In Europe, Weberian states became realities only in the 17th to 18th centuries in those countries where monarchs succeeded in establishing and maintaining standing armies.

However, even in the countries where the Weberian state was already a reality, there was another structural obstacle for governments in establishing homogenous territorial currencies. Until the coming of industrial capitalism, pioneered by Britain in the late 18th and early 19th centuries, economic life was characterized by its differentiation into three tiers, described by Braudel (1967–1979 / 1982–1984) in his influential work *Civilization and Capitalism, 15th–18th Century*. According to his analysis, capitalism at this time was only the top level of economic activity. Its sphere was interlocal trade, knitting together localities within encompassing economic space, called the 'economic world', and encompassing many polities. Each economic world was centred around a metropolitan city, serving as its hub. The capitalist centre of the economic world hosted properly capitalist activities of wholesale long-distance trade and financial operations between capitalists and rulers of states, providing capitalists

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with various market monopolies in exchange for loans. These monopolies enabled centres of the economic world to become high-profit zones.

Besides capitalism, there was the grassroots sphere of daily material life, and the intermediate tier of the market economy. The first sphere includes subsistence production outside the scope of market exchange. The market economy is properly represented by small business operating on a local scale, oriented towards making a living rather than wealth accumulation, and satisfied with small but regular profits. Because of the near synonymy between 'capitalism' and the 'market economy' in our times, Braudel's sharp distinction between them is highly unusual and may seem confusing. Therefore, he provides several opposing ideas to clarify his distinction: the market economy is that of regular exchange and competition, while capitalism operates through unequal exchanges, with the centre dominating a hierarchy and exploiting a periphery through prices imposed by cunning and power. The market economy is relatively transparent, while capitalism is opaque or shadowy. The market economy is the sphere of ordinary people, while capitalism is hegemonic power that imposes itself on local markets from outside and from above.

Before the definitive victory of capitalism, the market economy played only a supplementary role in the satisfaction of the daily needs of the absolute majority of populations that were rurally based and employed in agriculture. These needs were satisfied mainly in material life by the production of food for one's own consumption. Although both capitalist and market spheres of pre-industrial economic life were based on monetary exchange, what is most important for our topic is that they used different currencies. Capitalists used coinage made of precious metals, which could only be of high denominations and was not suitable for the needs of small trade in daily necessities characteristic of localized market economies. Within these economies, low-denomination currency was used, made of copper, bronze or iron, issued mainly privately or locally and not accepted beyond the bounds of local economies, except at large discounts equal to the difference between the face value and the price of the metallic substance of coinage. Even in the pioneer country of industrial capitalism (Britain), by 1786, two-thirds of the petty coins in circulation in Britain were counterfeit (Rodgers, 2009).

Of course, the market economy was not totally separated from capitalism because ordinary people occasionally needed high-denomination currencies. Not all daily necessities could be locally produced or could be supplied in sufficient quantities because of recurring crop failures. To insure against such misfortunes, monetary savings were accumulated. Many taxes also had to be paid with precious commodity money. For such eventualities, in the local market economies, high-denomination money was used as a store of wealth, but not as a medium of exchange or means of payment. In the terms of Karl Polanyi (1957, pp. 264–266), the overall situation can be described as that of the absence of general-purpose money, with at least two special-purpose monies present (see also Zelizer, 1994).

The relative mutual isolation of local market economies encapsulated by local monies secured the leverage that translocally operating capitalists had over the 'locals'. This leverage enabled them to profit from harvesting discounts at interfaces between local market economies and the capitalist superstructure of the economic world. Another source of capitalist power was information asymmetries, related to both knowledge of market situations in different local markets and the values of many different sorts of currencies. Capitalists (in the Braudelian sense) had the expertise to discern debased or counterfeited specimens and impose exorbitant discounts on their hapless local users. Indeed, economically successful handling of money was not possible without such expertise, which ordinary agents in local economies did not possess.

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The territorialization and nationalization of currency was a precondition for the development of capitalism in depth, which culminated in the emergence of the modern capitalist market economies. They are no longer marked by the cleavage between interlocal capitalism and non-capitalist or pre-capitalist local market economies. Actually, the British Industrial Revolution made possible both the capitalist fusion of local market economies into an integrated national market economy, and the emergence of a homogeneous territorial currency. A crucial breakthrough involved the integration of low-denomination currency into the standardized monetary order supervised by the central bank.

In fact, the pioneer country of the Industrial Revolution was also the first country where a homogeneous national currency was created. In technical terms, this amounted to the production of standardized high-quality petty coins in huge quantities, fixing in a clear and temporally stable way their relation to the high-denomination money represented by precious metals coinage and notes with the central bank, the sole legitimate issuer of the currency of both kinds. This transformation was nearly complete in 1844 with the promulgation of the Peel Act by the British Parliament (Helleiner, 2003a, p. 82). Only in Scotland did private banks continue to issue their banknotes, until this kind of activity became unprofitable due to new regulations making the central government the sole receiver of seigniorage. The vertical integration of monetary circulation (solving the problem of petty coins) was followed by the ban on the use of foreign currencies in domestic circulation in the continental European countries, except for those belonging to the same monetary union. Before the solution of the problem of petty coins, such prohibitions did not make sense, at least in the universal form.

In Britain, the homogenization of currency was made possible by the technological revolution pioneered by Matthew Bolton, who was a business partner of the famous inventor of the steam engine: James Watt. The steam engine is generally considered as the emblem of the Industrial Revolution. Symbolically, one of its first spectacularly successful applications was in driving coining presses in the Soho Mint, established as part of Bolton's industrial plant in 1788. Eight steam-driven presses could strike 70–84 copper coins per minute each. These coins were well designed and practically safe from counterfeiting. They included the famous 1 penny denomination 'cartwheel' coin, which continued to be coined until the decimalization of the British currency in 1971 (Rodgers, 2009).

The British technology of industrial minting was promptly imported by many other countries, including Sierra Leone, Sumatra, Russia, France, the United States, Canada, Denmark, India, Mexico and Brazil (Doty, 1998). Some of these countries were also the very first to import and utilize the steam engine. This importation of advanced coin minting technologies made it possible for many countries to create territorially homogeneous and exclusive currencies much in advance of the capitalist transformation of their economies. This transformation involved the merging of local economies into one large national market, the creation of railway networks, the establishment of electric grids (in the countries already undergoing capitalist transformation in the 20th century), and the replacement of traditional production technologies with those of industrial production. As a result, the Braudelian 'material life' became peripheralized. This meant that the very survival of the absolute majority of the population became dependent on ongoing participation in the market exchange. According to an illuminating explanation by Weber (1923/1950):

> While capitalism of various forms is met with in all periods of history, the provision of the everyday wants by capitalistic methods is characteristic of the occident alone and even here has been the inev-

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> itable method only since the middle of the 19th century. Such capitalistic beginnings as are found in earlier centuries were merely anticipatory, and even the somewhat capitalistic establishments of the 16th century may be removed in thought from the economic life of the time without introducing any overwhelming change.

TAMING MONETARY NATIONALISM: THE ERA OF THE GOLD STANDARD

Contemporary mainstream economics explains the emergence of the zones with territorially homogeneous exclusive currencies, applying the theory of the optimum currency area (OCA) elaborated by Canadian economist Robert Mundell (1961; see also Grauwe, 2000/2020).[3] The OCA is a geographical region in which sharing a single currency in the entire region would maximize economic efficiency. The features that allow an expectation of an increase in economic efficiency (acceleration of the gross domestic product per capita (GDPpc) growth after the introduction of a common currency) include labour and capital mobility, price and wage flexibility across the region, and similarity in the timing of business cycles. Production diversification and the homogeneity of consumer preferences may be included as additional features. The problem with empirical application of the OCA theory is that the existence of these features in many cases does not precede the establishment of the state borders or their changes, but follows them.

In fact, most of the present borders were settled by ending wars, which seldom (if at all) were fought to bring together lands which could profit from a common currency or to adjust borders to ensure their congruence with delimitations suggested by considerations of economic efficiency. However, the presence of all or nearly all features providing for the optimization of a common currency and its existence did not preclude the dismemberment of political units enclosing such areas. Probably the least disputable case of such dismemberment was the dissolution of the Habsburg Empire after World War I (see Komlos, 1990). It took several decades for its former lands, now known as Slovenia and Croatia, to integrate economically with Serbia and Montenegro and to become a new OCA enclosed within the borders of Yugoslavia. However, its emergence did not make Yugoslavia safe from dissolution.

The ideology that had the largest impact on the shape of the political borders in Europe and the whole world since the French Revolution was nationalism, which claims that each nation has the right to live in its 'own' state (see, e.g., Anderson, 1983/2016; Hechter, 2000; Smith, 2010). Nationalists consider the nation state as the only normal or legitimate form of state. Therefore, nationalism undermined and ultimately dissolved empires (multinational political units under the political, economic or cultural hegemony of a metropolitan nation), which until World War I were the dominant form of large territorial states, with the British Empire remaining the largest empire that had ever existed in the world in terms of population (see Taagepera, 1997). In the 20th century, ambiguities related to the very definition of 'nation' and political problems in drawing the borders of new national states in the areas populated by ethnically mixed populations led to many tragedies.[4] The conflicts driven by the clashing nationalisms

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[3] In fact, many economists conceive of OCA theory only as normative theory, conceding that it cannot explain many cases of currency adoption or rejection.

[4] The bloodiest conflict of this type was probably the violent division of British India into the states of India and Pakistan in 1947.

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of old and new nations ultimately discredited this ideology and propelled the attempts to build supranational political communities. The most successful political project of this type is the European Union, which was established in 1993.

Nationalism has many dimensions and aspects, many of which are discussed in the contributions to the present book. For the subject matter of this chapter, the most important thing is that nationalists, since the very beginning of the political prominence of this ideology, supported most significantly the principle that the complete sovereignty of a nation state should include its monopoly over issuing money notes, as well as the right and power to effectively enforce their use as sole legal tender in their own territory. The reason why nationalist ideology and politics included this support was the nationalist perception of national currency as a powerful instrument of nation-building. Nationalist ideology is essentialist, considering nation as a pre-existing primordial community that must only be 'awakened' for self-conscious historical life by establishing its nation state. However, in practice, it meets the challenge of inculcating national identities into the minds of broad masses of the population and of moving many born Italians or Germans to join a new broader imaginary community of nation, with this membership replacing or supervening on the received memberships in the received imaginary (e.g., that of Roman Catholic believers) or real (e.g., local parish) communities. Along with universal conscription and obligatory elementary schooling, the use of national currencies was used as an important tool for the remaking of 'peasants into Frenchmen' (cf. Weber, 1976) in the old and new nation states.

This challenge was very formidable for the builders of the American nation, whose task was to transform ever new waves of immigrants into American patriots. It was no less formidable for statesmen busy with building German and Italian nation states in the 1860s–1870s because it had to be accomplished together with nation-building. In both cases, attachment to the broader national community had to erase or to overpower received attachments to former political communities represented by deposed (in Italy) or sidelined dynasties (in Germany's case). Making monetary policy decisions, these politicians were quite self-conscious about their nation-building's side effects. Helleiner (2003a) provides ample documentation on this point. I will reproduce only one citation, highlighting the supervenient function of money in nation-building in a particularly sharp way. It is from the speech of Marquis Pepoli, a minister in the freshly unified Italy, during deliberations in 1862 on the creation of a new coin for the whole country: 'Money, while it circulates in the hands of all as a sign and equivalent of every kind of value, is likewise the most popular, the most constant and most universal monument that can represent the unity of the nation' (Helleiner, 2003a, p. 107).

The problem with the monopoly of government in issuing currency and banning other currencies from circulation was that government could misuse this monopoly in the way kings misused their prerogative of minting by debasing their coins. Such misuse was even easier because monetary monopolies enabled governments to replace commodity money with fiduciary paper money, which could be issued at very low production cost. However, such misuse, destabilizing the value of the national currency, could only undermine its status as a national unity symbol. In fact, this happened only exceptionally: from 1871 (when the newly founded German Empire adopted gold, following the United Kingdom) until the outbreak of World War I, most national currencies were part of the encompassing gold standard system. The British pound supplemented the use of gold as a reserve, transaction and intervention currency.

Actually, not all nation states had gold standard-based currencies by World War I, but joining the club of the countries with their currencies 'on gold' was an aim shared by all aspir-

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ing nation states in Europe and Latin America. At that time, this aspiration was predominantly supported by nationalists, because joining this club was a matter of national pride. There were calls to enlarge political nationalism by radical economic nationalism, including the use of the non-convertible national currency as a tool of developmental economic or egalitarian social policy, but until World War I they were not taken seriously (see Helleiner, 2003a, pp. 87–88).

Therefore, until the ultimate breakdown of the gold standard in 1931, there was no contradiction between monetary nationalism and monetary internationalism, because of the gold standard regime. Joining the gold standard did mean subordination under a supranational authority. Importantly, this authority was the impersonal authority of self-enforcing rules, not that of specific institutions such as the European Central Bank (ECB), World Bank (WB) or International Monetary Fund (IMF), forcing wrongdoers to keep in line by the threat of sanctions. This became the case during the Bretton Woods era (which I will briefly discuss) and continues to be the rule in the relations of international monetary authorities, with economically or politically weak nations under current monetary imperialist regimes (see the final section, 'On Monetary Imperialism and Digital Cryptocurrencies'). 'Voluntary' submission to the gold standard rules did not violate national pride, although this may very often be the case in the submission of nation states to the directives of a supranational authority, with the recent Greece debt drama (if not tragedy) providing an example.

MONETARY NATIONALISM UNLEASHED, NEWLY TAMED AND FADING

The causes of the demise of the gold standard regime in the 1930s are well researched (see, e.g., Eichengreen, 2008; Eichengreen & Flandreau, 1997). The 'beggar thy neighbour' policies blossomed: trading nations used currency devaluations in an attempt to increase their competitiveness (lower imports and increase exports). As a matter of common knowledge (see, e.g., Blanchard & Johnson, 2013; Eichengreen, 2008), under the gold standard regime, the balance of payments of a country can be restored only by internal devaluation: reducing wages or domestic prices, with a decrease in the price level (deflation), growth of underemployment and the depression of economic activity as regular side effects. Keynesian macroeconomics advises the use of external devaluation to achieve the same goal. This is the decrease in value of the unit of national currency, which makes imported goods cost more and exported goods cost less, making them more internationally competitive and boosting economic activity. The side effect of such (monetary nationalist, according to Hayek) policies is the rise in price levels (inflation).

However, monetary nationalist economic policies, unleashed in the 1930s by the breakdown of the gold standard, were tamed again in the period 1944–1971, because during this period the gold standard system was partially restored under the guise of the Bretton Woods settlement under United States (US) hegemony, which dominated the IMF and WB, the international monetary authorities supervising the implementation of its rules (Eichengreen, 2008; Helleiner, 2014). According to these rules, participant countries were under obligation to maintain exchange rates of national currency to US dollars minus or plus 1 per cent of parity. The US dollar was the reserve currency, tied to gold at a fixed US$35 for 1 gold ounce parity, and could be exchanged for gold at this parity (internationally, but not domestically). If the central bank of a participant country depleted its reserves of foreign currency, it was entitled to

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approach the IMF for preferential emergency loans. The provision of loans was (and remains) conditional upon the implementation of the economic policies (usually those of austerity) expected to improve the macroeconomic balance. In the extreme case of a 'fundamental disequilibrium' in the balance of payments, they could ask the IMF for permission to devalue their currency (Eichengreen, 2008, p, 95).

However, IMF approval was needed for devaluations of more than 10 per cent of value, so many countries simply devalued repeatedly at short intervals. Devaluations became more frequent after international capital movement was eased in the 1960s, exposing countries with the problems of payment balance to speculative attacks. I will not discuss the question of why Keynesian policies stopped working by the 1970s, ushering in stagflation, when devaluations of national currencies did not stimulate economic growth; this remains the bone of contention between Keynesian and neo-Keynesian (demand-side) macroeconomics and rational choice (supply-side) macroeconomics (see, e.g., Blanchard & Johnson, 2013). For my topic of monetary nationalism, only two points should be made.

Firstly, until the 1970s, Keynesian macroeconomic policies (including the systematic use of devaluation, which is monetary nationalist policy, according to Hayek) were very successful. Neither earlier nor later advanced capitalist economies displayed such high annual growth rates. In the period 1950–1973, the mean annual growth rate of Western European economies was 4.08 per cent, while Japan grew at an 8.05 per cent growth rate (Maddison, 2006, Vol. 1, p. 126). As a result, they caught up with the US economy in terms of productivity levels. Secondly, the systematic use of external devaluation as a monetary tool of macroeconomic management weakened the attachment of the populations of national states to their national currencies. Expecting their devaluations, they avoided keeping savings in these currencies, looking instead for foreign currencies with established reputations as 'hard currency'. Thus, the very success of Keynesian macroeconomic policies undermined monetary nationalists' conviction that a national currency is a necessary attribute of a 'normal' nation state, its full sovereignty including the monopoly over issuing money notes, as well as the right and power to effectively enforce their use as sole legal tender in their own territory.

Among advanced Western countries, there was only one important exception. 'One of the most powerful symbols of Britain's great past as a world power is the pound sterling, the former world reserve currency. While the German *Deutsche Mark* stands for German post-World War II prosperity, the British pound serves as a strong reminder of a glorious past' (Risse et al., 1999, p. 162). It can be argued that the mark of the Federal Republic of Germany (FRG) became the most central symbol of German nationalism, after other symbols that could have been invested with national pride became desacralized by their Nazi instrumentalization and the catastrophic defeat of Germany in 1945.[5] The Deutsche Mark was quasi-sacralised because of its role as the symbol of the German 'economic miracle' after World War II, which was part of the living experience of most of the German population. 'Low inflation became part of German identity in a double meaning: first in contrast to Germany's own troubled history – a theme, of course, that is familiar from other aspects of German historical discontinuities – and, second, in contrast to the inflationary performance of other Western economies' (Kaelberer, 2005, p. 292).

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[5] Or so argued by the famous German philosopher Jürgen Habermas (1991).

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The remarkable stability of the German mark, which was the least inflationary among paper currencies in the Bretton Woods era, stood in sharp contrast to the monetary experiences of other Bretton Woods-system countries. Currencies of the capitalist neighbours of the FRG were repeatedly devalued to cope with the problems of international competitiveness. Hence, disenchantment with national currencies was a side effect of the Keynesian economic policies, which overexploited its monetary nationalist basis. The waning of monetary nationalism continued after the replacement of the Bretton Woods system with the current model of floating exchange rates since 1971, because external devaluation continued to be used as the preferential method for the maintenance of the balance of payments.

The fading of monetary nationalism paved the way for the establishment of the European Monetary Union (EMU) or eurozone in 1999 according to the Maastricht Treaty. It was preceded by 20 years of the European Exchange Rate Mechanism (ERM), established in 1979 and using the European Currency Unit (ECU) as the accounting unit. However, only since 1 January 2002 were physical euro notes and coins introduced, replacing all national currencies. The waning of monetary nationalism during the last decades of Bretton Woods, and two decades of the floating exchange rate era, explain why the transition to the euro was so smooth, meeting no noticeable political opposition. Tired of the prolonged period of monetary instability, populations of the would-be eurozone member countries longed for a currency resembling the D-Mark, which had established a reputation as the hardest European currency. In fact, since the establishment of the ERM, the D-Mark was the de facto anchor for the ECU, which was the D-Mark in disguise, and the same applies to the euro.

Tellingly, among all member countries of the EMU, the population of Germany had the strongest doubts and misgivings about the replacement of the D-Mark (see, e.g., Fratzscher, 2018). However, it had no political consequences because of the broad consensus of all systemic German political parties regarding the political expediency of the eurozone as part of the new resolution of the 'German question' in the wake of German reunification in 1990. As proclaimed by its name, the EMU was just another case of monetary union, having precedents in the gold standard era. They include the Scandinavian Monetary Union (1873–1914) with Denmark, Norway and Sweden as participant countries, and the Latin Monetary Union (1865–1914) with France, Belgium, Italy and Switzerland as its founding members.

However, these unions did not involve the replacement of national currencies with a common currency. They were regulations on the free co-circulation of the national currencies in the territories of all member countries. They committed member countries to common specifications of gold or silver parity (in the Latin Monetary Union until 1873) of their national currencies and standards (i.e., diameter, weight and fineness) of coinage, minted by member countries separately. There were no common central banks or other supranational monetary institutions like the IMF or World Bank. Since only countries with national currencies on the gold standard could participate, these unions had a technical character because gold or silver (until 1873) was actual money in these monetary unions. Therefore, they could work without a single or top monetary authority (central bank), while its presence is a necessary condition for multistate currency zones with fiat money.

The EMU is very different in character, heralding the onset of the post-nationalist monetary era because the euro replaced national currencies, while national central banks transferred their monopoly rights to issue fiduciary money to the European Central Bank (ECB), together with the related powers of macroeconomic management. Actually, EMU member countries preserved the right to issue euro coins. However, the size of each emission had to be authorised

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by the ECB in advance. Like other currencies under free-floating regimes, the euro is pure fiat money. Thus, its actual exchange rate to other currencies is determined by global currencies and financial markets, although the ECB can in fact use foreign reserves of the European System of Central Banks for operations in these markets to manage this rate.

It can only be surmised how often such interventions happen, because the euro is not an easy target for speculative attacks. In fact, the broadly shared expectation of having a currency that will be at least as stable as the D-Mark was the main economic reason behind the establishment of the eurozone. From the viewpoint of the OCA theory, the eurozone was neither an OCA at the time of its establishment, nor did it become an OCA after its first ten years of existence, as demonstrated by the 2008–2010 economic crisis (see, e.g., Grauwe, 2000/2020). Paramount reasons for its establishment were political: it was the most important political project to bring countries of the EU closer together and to prepare for the future political integration of Europe (see, e.g., Stiglitz, 2016).

This makes the EMU different not only from the monetary unions of the gold standard era, but also from the Communauté Financière Africaine (CFA) franc zone in Africa, encompassing 14 countries in sub-Saharan Africa, most of them (except for Guinea Bissau and Equatorial Guinea) former French colonies.[6] In fact, the euro was also consciously engineered as the symbol of the supranational European collective identity in the making: 'the Euro is about European union and political order rather than only lowering transaction costs or creating exchange-rate stability' (Risse et al., 1999, p. 148). Although the euro coins display national symbols alongside European imagery, the structures and buildings on the euro banknotes do not refer to specific countries or regions. Instead, they feature typical but fictional European architecture to signal and suggest adherence to a supranational community.

After the extinction of so many national currencies by the euro, relatively few national currencies preserved the ability to serve as symbols of national unity that induce feelings of national pride. Benjamin Cohen (2015) provides an illuminating analysis of the international prestige stratification of national currencies. Elaborating on the seminal typology proposed by Susan Strange (1971a, 1971b), Cohen (2015, pp. 15–19) distinguishes seven kinds of currencies in the contemporary world according to their international status: (1) the top currency (USD); (2) patrician currencies (with the Deutsche Mark and the euro as the most telling examples); (3) elite currencies; (4) plebeian currencies; (5) permeated currencies; (6) quasi-currencies; and (7) pseudo-currencies (Cohen, 2006, pp. 14–15). This stratification is specific to the floating exchange rate regime, because under the gold standard there was a dichotomic division of the paper currencies into those 'on gold' and 'not on gold', while under the Bretton Woods system there were three classes: top currency (USD), currencies of the Bretton Woods system member countries, and currencies of outsider countries (most of them inconvertible).

In the contemporary world, the top and patrician currencies are hard currencies that are broadly used in international trade. Cohen (2015, p. 17) lists only two contemporary patrician currencies – the euro and Japanese yen – mentioning the Chinese yuan only as an aspiring or candidate patrician currency. Elite currencies are 'currencies of sufficient attractiveness to qualify for some degree of international use but of insufficient weight to carry much direct influence beyond their own national frontiers' (Cohen, 2006, p. 15). The Swiss franc is the

[6] Actually, it is subdivided into two subzones with different currencies bearing the same name, but both CFA franc currencies have always been at same parity to the French franc and then to the euro.

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ideal-typical elite currency. Others in this category are the Australian and Canadian dollars and the South African rand.

The plebeian currency tier includes national currencies that domestically succeed in retaining all traditional functions of money (medium of exchange, store of value, unit of account) but are not at all or little used across borders. Along with national currencies of the EU member countries that still remain outside the eurozone (Sweden, Norway and Iceland), this category includes currencies of some oil-exporter countries (Kuwait, Saudi Arabia and the United Arab Emirates), and those of newly industrialized countries (e.g., Singapore, South Korea and Taiwan). Permeated currencies are soft currencies that are not trusted by the populations and therefore are outcompeted by top and elite currencies even in internal use. As a result, the economies of these countries are dollarized or euro-ized. A permeated national currency no longer serves as a store of value: populations keep their savings in foreign currencies. The national currency survives only as a medium of exchange and as a unit of account in the official economy, while in the shadow economy it is substituted by foreign currencies even in these functions.

Focusing his analysis on upper-tier currencies, Cohen is very brief on the lowest-tier currencies. He describes as pseudocurrencies those of states that allow the use of foreign currency as legal tender, providing the only example of such a currency: the balboa of Panama, which has always circulated alongside the USD since its introduction in 1904 and was tied to the American dollar at an exchange rate of 1:1. Before the 1990s, Panama's case was considered a curiosity, deviating from the monetary nationalist standard of having a national currency with the function of sole legal tender as a necessary attribute of a sovereign state. However, recently, the number of states going 'Panama's way' has increased, including Montenegro and Kosovo in Europe (introducing the euro, although they are not EMU members) and Ecuador and El Salvador in Latin America (accepting the USD). Some of these countries (Montenegro, Kosovo, El Salvador) went even further than Panama itself, completely abolishing or not introducing national currencies.

Cohen is most laconic and provides no examples for the quasi-currencies tier, located between the lowest (pseudo-currencies) and permeated currencies tiers. Supplementing his analysis, I argue that territorial currencies under the currency board regime fit this category best. In this arrangement, the exchange rate of a national currency is pegged to selected hard currency, and the amount of the legally allowed banknote emission is limited by the size of the bank reserves of the central bank in hard currency. Thus, these reserves should allow all holders of its notes and coins to convert them into the reserve currency. The central bank under the currency board does not manipulate interest rates by establishing a discount rate and does not act as the lender of last resort. The currency board regime resembles the gold standard system, except that the value of the national currency is linked to foreign hard currency instead of gold. Most importantly, it commits a country with such a system to internal devaluation as the only possible policy for restoring the balance of payments, which was the case under the gold standard. Under this regime, the government can only tax or borrow on financial markets for its spending commitments, and cannot use monetary policy as an instrument of macroeconomic management (see, e.g., Blanchard & Johnson, 2013, pp. 482–486; Norkus, 2018).

Historically, currency board systems were used by Western powers with colonial empires to manage the currencies of their colonies, with the currency of metropoles playing the role of anchor currency. The increase in the number of countries that have abolished national currencies by joining monetary unions, accepting foreign currencies or establishing currency

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boards is the most conspicuous symptom of the current decline of monetary nationalism. It is telling that contemporary nationalist separatist movements, struggling for the establishment of new independent national states (Quebec in Canada, Catalonia in Spain, Scotland in the United Kingdom), do not include the introduction of a national currency in their programmes. On the contrary, Scottish nationalists consider the introduction of the euro as part of the establishment of Scotland as an independent state (Helleiner, 2003a, p. 219).

Obviously, top, elite and patrician currencies are best suited for the role of national symbol as they invest the populations with feelings of pride and superiority. Some plebeian currencies may be added to this list. The currencies of nation states with a long history of independent statehood are the first candidates for this addition, provided that they do not have a record of too many devaluations, which may end with currency substitution. Permeated currencies and pseudocurrencies definitely cannot serve as sacralized symbols of national unity. Quasi-currencies are a mixed category because, in some cases, national currency boards can be introduced for monetary nationalist reasons, to provide a national currency with the semblance of hard currency; something to take pride in, although this is only collective self-deception (see Norkus, 2018 for a case study of currency board regimes in Baltic states).

ON MONETARY IMPERIALISM AND DIGITAL CRYPTOCURRENCIES: IS HAYEK'S MONEY COMING?

Concluding the survey of the rise and decline of monetary nationalism, I return to Hayek's monetary theory as a source of illumination on the last important question: how can a current post-nationalist international monetary regime be positively characterized (because its designation as 'post-nationalist' is merely a negative designation)? Hayek is selected as the most promising source of illumination because of the recent emergence of digital currencies, which some authors (e.g., Dörr et al., 2019; Fantacci, 2019; Nakayama, 2018; Porter & Rousse, 2016; Sanz Bas, 2020) consider a realization of his late proposal for currency privatization as the cure for monetary instability, which he causally linked to monetary nationalization.

In his work pioneering the discussion of monetary nationalism, Hayek (1937) considered two possible resolutions to the crisis of the 1930s. One of them was just the restoration of an improved gold standard regime; the improvement proposed by Hayek was that central banks should have 100 per cent gold reserves for monetary emissions, instead of keeping only fractional reserves. The other was the radical denationalization of money by the establishment of the World Bank with a monopoly over monetary emission (with no requirement of the 100 per cent gold reserve). Hayek confessed that both proposals were politically unrealistic or utopian.

In his late work, Hayek pleaded for free banking (allowing private businesses to issue their own forms of money), speculating that the competition between many private currencies would end with the survival of only a few of the most stable 'extensively used and very similar currencies. In various large regions one or two of them would be dominant' (Hayek, 1976/1990, p. 126). This would amount to the restoration of monetary internationalism. Again, this proposal of the internationalist alternative to monetary nationalism was broadly perceived as another utopia. However, the invention of the digital currencies in 2008 prompted many observers to ask: does this mean the beginning of the realization of Hayek's proposed internationalist alternative to state currencies?

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However, before taking up this question, we should take up another one: how does the decline of monetary nationalism since late 1990s, heralded by the establishment and gradual enlargement of the eurozone, look from a Hayekian perspective? Is money not already denationalized and monetary internationalism restored in the contemporary international regime, based on the free-floating exchange rates and hierarchy of main currencies, with the US dollar still playing the role of undisputed reserve currency?

The description of the contemporary monetary regime as ‘monetary imperialism’ proposed by a contemporary exponent of Hayekian monetary theory, Nikolay Gertchev (2013), seems to provide the most illumination, accounting for both the fading of the idea that the sovereignty of a nation state should include monetary monopoly, and for the fact that most trusted (hard currencies) still remain fiduciary national currencies.[7] Under the gold standard, fiat (paper) currencies were perceived as hard because their issuers succeeded in convincing their users that they were mere representatives of commodity money (gold or silver), which was international or non-national as a matter of principle.[8] Under the current monetary imperialist regime, the national currencies of a few nations are perceived as hard or trust-deserving only due to the status of these nations in the international system or their reputation for economic prowess; that is, these currencies are symbols of their power. As a supranational currency, the euro may appear as an exception. But, in reality, it can be interpreted either as the D-Mark in disguise due to the pervasive influence of Germany on the making of EU monetary policy, or as the first act in the nation-building of the European nation.

Gertchev (2013, p. 120) distinguishes two forms of monetary imperialism: cooperation and unification. Cooperation takes place between central banks. Its most usual forms are securities swaps and emergency lending to save a central bank facing insolvency, in order to preserve the stability of the whole system. Each operation of helping a particular national bank needs political approval by the regional or global hegemonic power. Therefore, cooperation of central banks reproduces and consolidates hegemony and dominance relations in the world system. ‘Unification results in the effective reduction of the number of paper money producers’ (Gertchev, 2013, p. 120). Its forms are currency substitution (with dollarization and euro-ization as the most common forms), currency boards and monetary unions. As was already argued above, the currency board preserves only a semblance of monetary sovereignty, while monetary substitution is the spontaneous flight of the citizens of a nation state from their own currency. From a Hayekian point of view, monetary imperialism fails to achieve the purpose of the truly international monetary order, which is the creation and maintenance of stable money. Meanwhile, monetary imperialism does not stop inflation, which in the Hayekian perspective is the key economic pathology of contemporary ‘really existing capitalism’.

Could cryptocurrencies bring salvation from this evil? They are defined as types of digital currency based on blockchain technology and cryptography (Lee Kuo Chen, 2015; Fantacci, 2019). Possessors of Bitcoin monetary units are the owners of unique alphanumeric codes which can be exchanged with anyone, provided that transaction partners wish to accept them. The first cryptocurrency known as Bitcoin was released in 2009 when the global economic crisis was at its height, and many investors were looking for a reliable store of value. It was created by a team of programmers, working under the pseudonym Satoshi Nakamoto. Since

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[7] Gertchev credits authorship of this concept to Hoppe (2003) and Hudson (1972/2003).

[8] This perception allowed the central banks issuing the most trusted currencies to keep not 100 per cent gold reserves as a matter of fact, but only a fraction.

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that time, many alternative cryptocurrencies (known as Altcoins) have been created, with the market for cryptocurrencies emerging, resembling the market for private currencies envisaged by Hayek (see, e.g., Lee Kuo Chen, 2015).

Digital currencies are decentralized private assets, since they are released by private entrepreneurs, not by the state. This means that they are not legal tender, with their circulation based on voluntary acceptance by the parties. Due to their character of intangibility or as digital assets, this circulation cannot be enclosed within the borders of a specific state and cannot assume the supervenient functions of the symbol of national unity or of media for nationalist propaganda. The rate of growth of the supply of a specific cryptocurrency is regulated by an algorithm, which usually sets a limit for maximal emission (no more than 21 million Bitcoins can be released). As a matter of principle, in the event of its broad acceptance, this feature would make digital cryptocurrencies even safer from inflation than the private currency originally envisaged by Hayek, because the release of additional monetary units is not controlled by any specific bank, financial institution or company. Cryptocoins are regulated by an algorithm that determines the rate of growth of the money supply, and therefore they are not controlled by any state, bank, financial institution or company. Each cryptocurrency possesses its own blockchain: additional monetary units are created through a decentralised network of 'miners' (see Lee Kuo Chen, 2015).

However, at this time, it is still not possible to claim that they are 'real money', because none of the cryptocurrencies are able to perform three classical functions of money, as defined in the economic literature: (1) medium of exchange; (2) store of value; and (3) unit of account. Limiting the discussion to the most broadly known and most appreciated variety of cryptocurrency (Bitcoin), it has a very limited role as a medium of exchange because the level of acceptance remains rather low. It cannot play the role of savings instrument because the exchange rate to other currencies is very volatile (see European Central Bank, 2015, pp. 23–24). Theoretically, it should appreciate as its emission approaches the 21 million unit limit, and Bitcoins will be more broadly used as a medium of exchange. Very high volatility and a low level of acceptance make Bitcoin impractical as a unit of account. Therefore, experts describe digital cryptocurrencies as only 'digital assets' (Sanz Bas, 2020, p. 18).

It cannot be denied that the acceptance level and stability of cryptocurrencies will increase. However, after the first decade of their existence, they are still far from Hayek's vision of the truly international currency, marked both by independence from the political will of even the most powerful countries, and by stability of value. This means that the end of the current era of monetary imperialism is still out of reach.

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