

The Constitutional Law of Money

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Fall, 2017

Discussion Questions for Class 2

Money: the Basic Design

Readings:

Christine Desan, "The Monetary Structure of Economic Activity" (draft, July 2017)

Cotton Mather, "Some Considerations on the Bills of Credit Now Passing in New-England" (1691) in *Colonial Currency Reprints 189-196*, edited by Andrew McFarland Davis (Boston: John Wilson & Son, 1910), at [URL](#)

Captain John Blackwell, "Some Additional Considerations," (1691), in *Tracts Relating to the Currency of the Massachusetts Bay, 1682-1720*, edited by Andrew McFarland Davis (Boston, New York: Houghton Mifflin and Company, 1902), at [URL](#)

Background:

In "The Monetary Structure of Economic Activity," Desan considers why governments often make money out of sovereign debt and support its circulation. Her approach is emphatically legal; it defines money as an institution. According to that approach, money is a mode of governance in a material world: it allows public authorities to mobilize resources and provides people with a medium that has recognizable and enforced value. By contrast, most economic approaches assume an operating unit of account. They often attribute the origins of that unit to social convention or the mutual acceptance of an item of extrinsic value. The difference matters: while economic assumptions about money neutralize variables in ways that allow money to operate within economic models, considering money as a legal institution opens up dimensions of governance previously obscured.

In 1690, English authorities ordered the Massachusetts Bay Colony to send its militia to fight those French occupying Quebec. The Colony complied. Legislators hoped that their soldiers would vanquish the French for many reasons, including a practical one. The assembly had not figured out how to pay the soldiers. If they won, they could divide the booty as compensation.

Stranded in Quebec without imperial reinforcements and decimated by smallpox, the Americans lost badly. Survivors returned to Boston in terrible shape and in a worse mood. The Massachusetts assembly improvised a very basic money: it issued provincial "bills of credit" or IOUs that the soldiers (or anyone else) could use to pay their taxes. Cotton Mather, an influential Puritan minister, and Captain John Blackwell, a merchant and

politician, wrote some of the earlier pamphlets defending the assembly's strategy and explaining how American paper money worked.

Discussion Questions:

1. The legal approach to money suggests that making money requires governance decisions, both to make a political obligation into a monetary asset and to support that asset as cash. Put yourself into the position of a public authority as you answer the following questions:
 - a. Would you choose to monetize political obligations or “make money” out of sovereign debt?
 - b. If so, which parts of the process of monetizing political obligation would you find most difficult?
 - c. As a member of society, would you support the decision of public officials to monetize public obligations?
2. Now consider the legal work that it takes to support a monetary asset as cash. Again, put yourself in the shoes of a public official as you answer the following questions:
 - a. Would you choose to privilege a sovereign asset for use in exchange? If so, how would you do it?
 - b. What parts of privileging the sovereign asset in exchange would you find most difficult?
 - c. As a member of society, would you endorse the decision of public officials to support the use of the sovereign asset as cash?
3. If the sovereign debt strategy describes how most governments make at least the base money in use, how would you define that money?

Note: When people refer to “base money,” “the monetary base,” or “high-powered money,” they are selecting for the money that operates as currency or as a reserve in banks. They are leaving aside the money that banks create through extending credit.

4. If you had been in the provincial assembly in Massachusetts, would you have supported the sovereign debt strategy? Could you, by contrast, have tried to use silver or an item of trade like wheat or tobacco?
5. Mather and Blackwell were writing in the early days of paper money, and were anxious to legitimate it. If you were a soldier paid with paper money, what if anything would give you confidence in it? If you were considering taking paper from a soldier in exchange for goods, what if anything would induce you to take

it?

6. How do Mather and Blackwell suggest that the Massachusetts government support the value of paper money?
7. In the "Monetary Structure of Economic Activity," Desan argues that a government's decision to package political obligation in the form of a medium changes the relationship between the government and citizens. If the arguments made by Mather and Blackwell are expressive of the new order, how might paper money affect the relationship of the government and its members?