



**The Janus Faces of Money, Property,  
and Governance:  
Fiscal Finance, Empire, and Race**

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# The Janus Faces of Money, Property, and Governance: Fiscal Finance, Empire, and Race

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## Abstract

This paper contributes to the literature on racial capitalism by deploying a key insight of the Law and Political Economy tradition which is that politics acting through the law plays a constitutive role in the monetary hardwiring of economies and their property rights. By focusing on two key elements of fiscal finance, central banking and taxation, the paper shows that while the pressures of democratic self-governance created one type of hardwiring in Britain and its white dominions racialized politics created a different type in the colonies of color. In short, the particular monetary hardwiring of the colonies of color effectively “kicked away the ladder” needed for their successful socio-economic development, occluding the very different policies pursued in Britain and the dominions. This left the colonies of color in a vulnerable state at independence, providing much weaker foundations for their subsequent economic development. Given the key role played by gold in the anchoring of banknote emissions by the Bank of England (BoE) Britain’s global politics of gold and silver was central to its domestic economic development. And the BoE, a private joint-stock corporation, was deeply enmeshed in the government’s domestic and colonial governance policies. As with the BoE taxation systems domestically and internationally exemplified the same principle: private property was always embedded in the public sphere following different modes of governance in different historic and geographic contexts. Simply put, politics acting through the law was actively creating markets in different ways rather than protecting pre-existing and privately-created ones.

*Very simply, in market economies...money is not only a medium of exchange but also a means of political and social control: it is one way of deciding who gets what. Therefore, by following the money flows in the market economy and in the institutions that structure that flow we can learn a great deal about the uses to which the society’s resources are put, the people who make the allocative decisions, and the process through which control is obtained and exerted.*

John Zysman (1983), p. 8.

*Legal forms and practices are political products that arise from the struggles of conflicting social groups that possess very disparate resources of wealth, power, status, knowledge, access to armed force, and organizational capability.*

Robert W. Gordon (1984), p. 101

## 1. Introduction

A key pillar of the World Bank’s governance framework since the mid-1990s is the establishment of the “rule of law” especially in countries seeking to industrialize (Trubek & Santos 2006, Thomas 2011). This Law and Development (L&D) tradition is closely allied with the New

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Institutional Economics (NIE) and is profoundly shaped by the theoretical framework of Douglass North and others. As argued by North & Weingast (1989) in their discussion of the Glorious Revolution of 1688 in England and Hayek (1982) more generally, the central policy proposal is that the law should legally handcuff the government to protect private property rights thereby creating a more efficient economy (Ohnesorge 2008). The existence of a “firewall” between the public and private spheres would ensure both economic development and democracy. As authors in this literature claim the transition to democracy in a number of countries in the Global North (especially Britain) purportedly generated credible commitments by political elites to secure private property rights, thereby promoting economic development (Acemoglu et al. 2006, North et al. 2012).

Treating the L&D/NIE approach as central to the conventional Law and Economics (L&E) tradition, this article challenges the latter by focusing on the history of British *fiscal finance*, i.e. the twin deployment of the Bank of England (BoE) to finance the state and taxation to manage the national debt in promoting the domestic governance agenda. It is argued that this increasingly democratic domestic governance project was Janus-faced as money and taxes were politically deployed in a different way to structure the colonies of color in Africa and Asia with the latter’s purported “civilizational backwardness” constituting the ideological basis of the politics. Further, the dominions or white settler colonies such as Canada, Australia, New Zealand, South Africa, Ireland, and Newfoundland, were largely self-governing compared to the colonies of color with greater levels of autonomy in mobilizing fiscal finance.<sup>2</sup> In other words, the conventional view according to which Western institutional frameworks need to be grafted onto countries in the Global South to make them “developed” (Acemoglu et al. 2005) obfuscates both the nature of those institutions and their intimate connections with those established in the colonies.

In order to debunk the conventional view, the article draws on the extant literature that has emphasized the key role of England’s Financial Revolution in the late seventeenth century. It will have as its point of departure the BoE’s role as the manager of the public debt and the system of taxation that developed concomitantly to give the state stronger sinews for domestic governance and to project its power overseas (Dickson 2016, Brewer 1988). The paper also draws on Cain & Hopkins (2016) with regard to the British financial sector’s deep connections with the machinery of the British state along with the crucial ideological role played by Britain’s self-proclaimed “civilizing mission” in its imperial agenda. By unpacking the ways in which the *monetary hardwiring*<sup>3</sup> in England and the dominions differed from that in African-Asian colonies (primarily India and other

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<sup>2</sup> This was also true of the thirteen American colonies (Desan 2016). This paper will not deal with these colonies.

<sup>3</sup> I am grateful to Christine Desan for proposing this term.

colonies of color in sub-Saharan Africa) this paper adds to the TWAIL (Third World Approaches to International Law) literature (Mutua 2000, Anghie 2004).

The analytical framework of this paper is based on the Law and Political Economy (LPE) (Grewal et al. 2017) framework which, drawing on a well-established tradition including the “old” Institutional Economics (Commons 1924, Fiorito & Vatiello 2011), American Legal Realism (Hale 1923, Samuels 1972, Gordon 1984, Kennedy 1991, Cohen 1927), and racial capitalism (Du Bois 1998, Prasch 2008), has provided an important critique of the L&E tradition. An important application of the LPE framework is the *constitutional theory of money* literature (Desan 2005, Desan 2014, Moudud 2018). While adopting the endogenous money framework, this literature argues that all money sits atop a public base, i.e. money creation is fundamentally the result of a legal framework that can be politically hardwired in different ways.

Section 2 discusses the LPE view of money and property and Section 3 illustrates the LPE framework by telling the story of British fiscal finance from the Glorious Revolution of 1688 to the Second World War. Section 4 is a discussion of how “civilizational backwardness” became the basis of British policies in the colonies of color and how they differed from those implemented in the dominions. Finally, section 5 is the conclusion.

## **2. The Nature of Property and Money: Law and Political Economy versus Law and Economics**

The notion of “government failure” is central to both Hayek (Slobodian, p. 251) and the NIE framework (Thomas 2011, p.983). “Government failure” is said to arise from corruption and unrestrained public power that does not secure private property rights. Varieties of development experiences, according to this view, exist because of the extent to which the state is willing and able to secure private property rights (Djankov et al. 2003, p.595). The legal origins literature, important in the World Bank’s global policy discussions (Pistor 2009, p.1647), concludes that countries in the English common law tradition do better economically compared to those in the French civil law one because supposedly the former involves states that are less intrusive and are more market-supportive (Porta et al. 2008, p. 286). Thus in this view markets, with property ownership and contracts at their core, arise spontaneously through private initiatives and the role of the state should be to secure their efficient functioning. It is in this institutional vein à la Douglass North that Acemoglu et al. (2005) conclude that in those parts of the colonial world where supposedly pre-colonial “extractive” institutions persisted so has economic underdevelopment. On the other hand where the “superior” institutions of the colonial powers were successfully transplanted economic development ensued.

The above argument is consistent with the definition of “Property Rights” in The Ronald Coase Institute website<sup>4</sup> in which a distinction is made between economic rights and legal property rights. Quoting directly from that website:

“The economic property rights of an individual over a commodity or an asset are the individual's ability, in expected terms, to consume the good or the services of the asset directly or to consume it indirectly through exchange. These can include (1) the right to use an asset, (2) the right to earn income from an asset and contract over the terms with other individuals, and (3) the right to transfer ownership rights permanently to another party. The legal property rights are the property rights that are recognized and enforced by the government.”

The Law and Political Economy (LPE) framework would reject the above distinction. Every one of the above features (1) through (3) is a legal category and entails a complex combination of bundles of rights (rights, privileges, immunities, and powers) all of which are politically-enforced via the courts. For example how one uses one's property (e.g. conversion of a home in a residential neighborhood into a factory will depend on zoning laws) and how much damage one can cause others by its use or non-use (e.g. can a factory dispose of its chemical effluents in the neighboring river or how unsafely can the machinery be operated?) depend on the background legal and political context.

While a corporation is a profit-making private institution its institutional characteristics, distinct from traditional partnerships, are politically-created and legally-enforced. These include limited liability, the ability to own property, enter into contracts, and sue or be sued in a court.<sup>5</sup> And of course corporate charters vary enormously across national boundaries and history. Well-defined and absolute private property rights cannot exist as Kennedy (2011) argues because all private property is embedded in a larger society. The ability of an owner to exercise their private property rights (say profit-seeking) will invariably collide against others and politics, generally acting through the law, will determine each owner's margin of maneuver. All private institutions have a public foundation in the sense that politics acting through the law provides the *background context* to the operations of the private sector (whether households or firms). And that context varies across history and countries. LPE scholarship is not saying that the private sphere mechanically responds to government *diktats*.

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<sup>4</sup> <https://www.coase.org/nieglossary.htm>.

<sup>5</sup> Ciepley, David 2020. "Privatizing Sovereignty, Socializing Property: What Economics Doesn't Teach You About the Corporation" (<https://lpeblog.org/2020/02/18/privatizing-sovereignty-socializing-property-what-economics-doesnt-teach-you-about-the-corporation/#more-3270>).

In figures 1 and 2 below I illustrate the difference between the L&E approach and the LPE one with the help of the capital/labor relationship. The circles represent individual workers and corporations respectively. The ‘state’ refers to political and legal institutions.

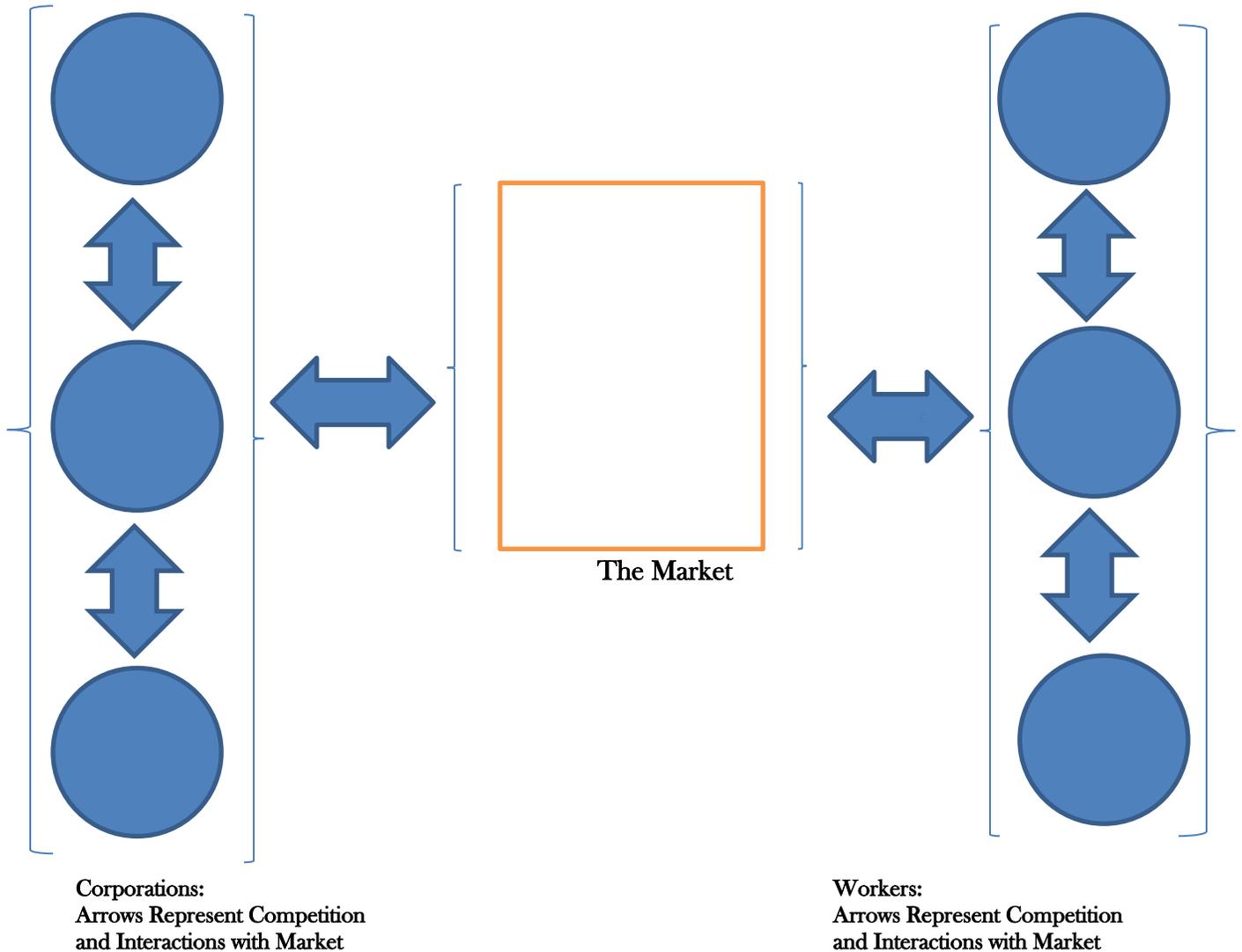


Fig. 1 The Relationship between the State and the Economy in the L&E View

The above diagram represents the way that the L&E framework would consider the relationship between corporations, individual workers, and the state. Private actors either set up businesses or become workers and join unions and interact in markets on the basis of voluntary decisions. The role of the state is to *encase* markets and private institutions to prevent fraud etc. The braces represent this protective role of the state in regards the pre-political private sphere and

market in which private actors come into contact. “State intervention” is only warranted when there is “market failure”. The bi-directional arrows between corporations and workers, respectively, represent competition among themselves. The bi-directional arrows between corporations and workers and the market, respectively, represent interactions with the market.

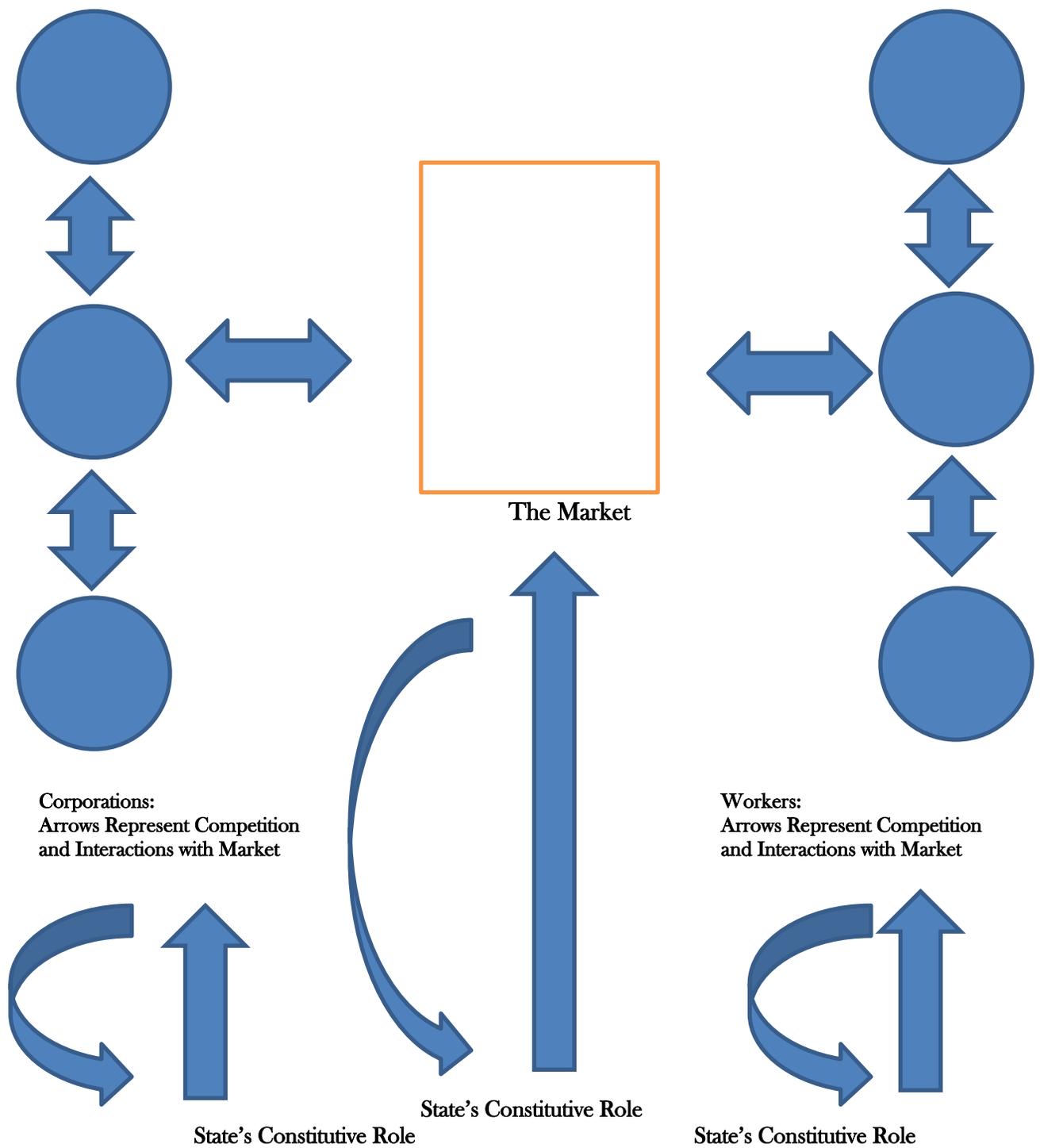


Fig. 2 The Relationship between the State and the Economy in the LPE View

In figure 2, the arrows at the bottom of the diagram show law's *constitutive* role in constructing markets, corporations, and workers' bargaining power. The curved arrows represent

the fact that there could be some feedback effect from markets (say there is an economic crisis) and political activism by corporations (lobbying by financiers in the BoE) and/or labor (strikes, role of the unions etc.) to restructure the underlying legal and political foundations of the economy. All markets are fundamentally or *foundationally* politically and legally constructed. This is the central conclusion one comes to in studying Katherine Moos's (Moos 2020) paper on the British Factory Acts in the nineteenth century. Building on Karl Polany's "double movement" (Polanyi 1944) Moos discusses the contested political struggles, including the cultural norms regarding child labor and gender that shaped agitation for social legislation, that were the bases of the Factory Acts. As with factory accident legislation toward the end of the nineteenth century more generally (Moses 2018, Witt 2006), profit-making investment has always been embedded in complex political struggles and cultural norms that constitute the legal-institutional foundations of markets. It is this legal and political foundation that determines the bargaining power of labor and thus unit labor costs,<sup>6</sup> other non-labor costs,<sup>7</sup> profitability, and business investment (Moudud 2019a). None of this denies capital's pursuit of profits and the recurrence of crises (Shaikh 2016) both of which arise from business investment decisions. And yet one cannot reduce the legal and political foundations of the economy to its accumulation phase given that progressive legislations in the UK such as the various Factory Acts throughout the nineteenth century were constructed in both booms and slumps.<sup>8</sup> Or consider the example of progressive social policies in the US during the Great Depression of the 1930s not to mention landmark environmental and consumer safety legislations in the US during the stagflation crisis of the 1970s. In short, profit-making is embedded in wide variations of institutional frameworks and those variations reflect different political priorities.

Of course profit-making presupposes the existence of a unit of account. Historically under the commodity money system no spontaneous "market forces" determined the precious-metal context of coin; that was always the prerogative of the government, creating the basis of money's

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<sup>6</sup> Unit labor cost = hourly wage rate per worker divided by output per hour. Output per hour is partly a function of how hard labor can be made to work (Bowles et al. 2018) and the technology. But technology itself is property and relies on a prior legal and political framework to come into existence and be used. One example of law's constitutive role in regards technological change is the nature of the intellectual property rights regime as Dahlén & Larsson (2014) discuss. Or consider the role of public funding in basic research which corporations then commercialize (Block & Keller 2011, Mazzucato 2015) and the cross-linkages between public and private spheres that are central to national systems of innovation (Fagerberg et al. 2005) and industrialization strategies more generally (Chang 2002).

<sup>7</sup> For example, the presence, nature or absence of zoning laws or environmental laws will respectively affect the value of the land on which a factory sits and the type of technology it implements. And

<sup>8</sup> See <https://www.parliament.uk/about/living-heritage/transformingsociety/livinglearning/19thcentury/overview/latefactoryleg/> and Musson (1959).

role as legal tender and as a tax obligation (Desan 2014, Narsey 2016, table A.1). Thus money did not arise spontaneously to overcome the limitations of barter, as the Austrian and Lockean perspectives claim, but was always central to very state's governance and tax system. This governance notion of money with its linked tax obligation was as true of England, the US, and France (Desan 2016, Moudud 2019b) as it was of the ancient powerful kingdom of Aksum located in the region of modern day Ethiopia (Munro-Hay 1991, chap.9). With regard to coin, there is no way in which the precious metal content could have arisen spontaneously in market exchange and be the basis of stable contracts and property rights between millions of strangers over time (Moudud 2018). Some central political authority needed to exist to create and *enforce* the monetary system along with the system of property, contracts, and torts. And of course the state was central to the construction of fiduciary currency. After all high-powered money is determined by the government (Cagan 1965) and bank deposits are considered part of the money supply because state-chartered banks have the legal authority to issue money when they either attract deposits or create loans. Further, both loans and deposits are legally categories that can be treated in contract and property terms, underscoring their political foundations. Therefore Morgan Ricks considers bank regulation to be a “subfield of public utility . . . regulation” (Ricks 2018, pp.757, 768–69) while Hockett & Omarova (2018) treat banks as public franchises. As we will see in this essay the BoE as a private corporation was fundamentally embedded in the governance goals of the government as was the Bank of France (Moudud 2019b). Thus in this *constitutional theory of money* framework money springs from the governance needs of the state which necessarily involves providing the context for the operation of profit-making activity. This in turn presupposes appropriate policies to enable bank credit to grow endogenously – or be stunted as in the colonies of color as discussed below.

Now if money arises from the governance needs of a society the nature of the politics is central to its monetary hardwiring. As Robert W. Gordon (1984) writes in his classic article, in reality law never adapts itself functionally to make the economy more “efficient”. Rather, politics play a central role in legal arrangements where the former itself is shaped by cultural norms in as much as culture is in turn a function of the dominant politics, however that is created. Rival notions of “justice”, “fairness”, or “efficiency” play a key role here. Depending on the context, racialized politics can become integral to the construction of capitalism. Trained in the German Historical School tradition<sup>9</sup> (Edwards 2006) the distinguished African-American scholar W.E.B. Dubois was

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<sup>9</sup> For a well-known application of the German Historical School's inductive approach see Ha-Joon Chang's *Kicking Away the Ladder* (Chang 2002).

one of the earliest ones who underscored the racialized foundations of the economy, in particular in his *Black Reconstruction in America 1860-1880* (Dubois 1935). He understood very clearly that the notion of “freedom of contract” for free black labor in the postbellum period meant very little given the underlying social and political practices and legal institutions that treated blacks differently from whites. As Prash (2008) observes in his discussion of Dubois, a major recurrent theme (ibid. p. 319) in the latter’s work was the need for structural political changes as a *pre-condition* for black economic progress. In the same vein Berle & Means (1991) in the revised version of their classic book on the corporation and private property wrote in 1967 that the former as “...a creation of the state” (ibid., p. xxix) was limited by the constitutional foundations of the society and therefore subject to the restraints against racial discrimination imposed by the Civil Rights Act of 1964. Thus the actions of a corporation, as a bundle of money flows and stocks, are clearly structured by the presence or absence of racial discrimination laws and practices.

Hence to claim that “market forces” powered by individual effort are a precondition to prosperity and liberty is to confuse the cause-and-effect relationship between markets and their legal/political foundations. This “pick-yourself-by-your-bootstraps” argument was as much deployed as a solution to African American poverty (Baradaran 2019) by mainstream commentators as to that of colonial peoples’ poverty by conservative development economists such as P.T. Bauer (Cypher & Dietz 2009, chap.7). Instead, a number of scholars have debunked the conventional view by discussing the racial coding of law as it pertains to property, contracts, and money. There is an extant literature on race and property rights (Rothstein 2017) and race and money (Baradaran 2019, Freund 2020<sup>10</sup>) which emphasizes the Janus-faced nature of money and property, i.e. one logic for whites and another one for blacks in regards the legal and political foundations. Peter James Hudson’s book (Hudson 2017) is particularly significant since he studies the intersection of the history of race and bank credit in the Caribbean, although he does not deal with race and fiscal finance which is the central concern of the current paper. It is envisaged that this article will contribute to the classic literature on race and capitalism (Marable 2000, Rodney 1981).

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<sup>10</sup> Freund, David “Money is Productive, and Racist Institutions Create Money” (<https://justmoney.org/d-freund-money-is-productive-and-racist-institutions-create-money/>).

### 3. Fiscal Finance and Governance in England

P.G. M. Dickson's classic book *The Financial Revolution in England* discussed the centrality of public debt in the eighteenth century in the creation of powerful English state. This book is part of a long intellectual tradition going back at least to Marx in *Capital Vol. I* (Marx 1967, chap.XXXI) that has emphasized the crucial role played by public debt in financial development (Sylla et al. 1999). With its focus on taxes, John Brewer's *The Sinews of Power* complements P.G.M. Dickson's classic. Brewer's book, spanning the period 1688 - 1783, is part of an extensive literature on the fiscal-military state which takes the position that state formation in early modern Europe required access to taxes to finance wars, an important priority of these states. International militarism was, in this view, the prime motivator for developing efficient taxation systems since the former generated enormous increases in public expenditures and public debt. Thus given the English state's unwillingness to create money directly through a state-owned bank, even though some authors had advocated such a policy (Clapham 1970, pp.99-100, Narsey 2016, p.31), indebtedness to private banks for money creation required an efficient and regular taxation system.

As Pincus & Robinson (2014) discuss the Glorious Revolution of 1688 not only brought about important parliamentary changes, include the strengthening of the House of Commons (Brewer 1988), but also increased the economic and political power of the Whigs. The Glorious Revolution came in the wake of longer-term transformations occurring in English society throughout the seventeenth century which increased the relative economic power of commercial classes including that of manufacturers and those who traded with the colonies (Pincus & Robinson 2014, pp.207-208).

While there was an increase in the share of land taxes after 1690 (Brewer 1988, chap.4) there was a far more dramatic increase in excise taxes after this period while customs taxes rose too. These three taxes constituted almost 90 percent of government revenue for about a hundred years after the Glorious Revolution (Brewer 1988, p.95). During this same period public debt as a fraction of tax revenues also increased quite dramatically (ibid. p. 117) with the BoE playing a key role in the development of the public finance system. Excise taxes which were imposed on common articles of consumption were thus regressive, thereby disproportionately affecting the working class. Further, despite all the rhetoric about *laissez faire* manufacturing businesses were embedded in a complex web of very intricate excise tax rules including what manufacturers must have considered extremely intrusive actions by excise officials (ibid. pp. 214 - 215). Customs duties, which were primarily import tariffs (ibid p. 92), clearly benefited the growing proportion of

agricultural capitalists (consider the Corn Laws) whose ranks as Meek (1967) argues had also increased alongside the manufacturing capitalists who must have also supported protectionism (Chang 2002). Finally land taxes squeezed the landowners, further adversely affected to some extent in regards access to credit by the growing fiscal demands of the Treasury (Brewer 1988, p.202). By increasing the state's borrowing and thus debt repayment capacity the deepening tax system and the financialization of the economy in turn enriched a growing class of financiers located especially in London (Cain & Hopkins 2016). In short, as Robert Hale discussed (Samuels 1973) more generally about property, politics acted through the tax codes to distribute property rights and power relations in the economy.

With the end of the Napoleonic wars in 1815 *laissez faire* orthodoxy dictated fiscal probity as a way to reduce both the massive public debt overhang and what was called Old Corruption, i.e. patronage politics that infused the state's relationship to different sectors of the economy especially finance. Thenceforth the doctrine of "sound finance" became *de rigueur* to the *laissez faire* framework. An unofficial return to the gold backing of banknotes after 1815 was also a key way to root out Old Corruption by purportedly restraining the autonomy of the BoE. The influential perspectives of both Peel and Gladstone by mid-nineteenth century completed the orthodoxy of fiscal restraint and free trade. Monetary orthodoxy became enshrined in Peel's Bank Charter Act of 1844. However, free trade reduced import tariffs, a vital source of tax revenue, leading to the reintroduction of the income tax in 1842 and increased political pressures on the part of property owners to oppose "big government" so as to keep their taxes low. Lowered import tariffs also made basic imported food items, which were staple to working class consumption, cheaper (Cain & Hopkins 2016, chap.4).

And yet as Martin Daunton (2001, 2002) discusses, in terms of domestic governance, the need for both credibility and consensus were tied to the growing demands of the society, including pressures from the labor movement and the franchise more broadly. If until the mid-Victorian era there was greater reliance on municipal taxes for social and infrastructural needs, growing political demands for public health and other social investments began to strain at the bounds of local finance, necessitating increased central state spending and tax revenues (Daunton 2001, chap.9). Increased government spending by the turn of the nineteenth century, precipitated jointly by rising demands of the military because of the Boer War and agitation by the newly-formed Labour Party in 1900, ended the Gladstonian era in one sense, i.e. need for more public spending increased. However, the goal of fiscal probity in terms of not letting the budget deficit grow was maintained, although both the world wars shattered this policy (Clark & Dilnot 2002, p.2). As the central state's

tax share grew, the taxation system also became more progressive (Daunton 2002, chap.4). The First World War was an important turning point since 1900 when the central government tax rate on income and capital exceeded that on expenditure and stayed that way all through the 1940s (ibid. p. 15).

The above discussion on the evolution of the taxation system needs to have as its background context the domestic role of the BoE. The BoE was founded in 1694 so as to deal with all the difficulties that accompany a commodity money system, one of the principle ones being the perpetual shortage of currency that existed under this system. Given this perennial shortage of currency over the course of several centuries the English state in conjunction with the BoE invented paper currency. Growing political tensions with France, especially after the accession of William of Orange to the throne, increased the state's military and domestic development spending needs and thus required borrowing on an even greater scale. Both the Glorious Revolution of 1688, which strengthened the power of parliament in terms of control over the public purse, and the creation of the BoE needs to be situated in this context. According to this system the government would borrow from the BoE in the form of banknotes issued by the latter and promise to take it back in future taxes (Desan 2014). As Desan (2014) argues the English government and the BoE in the seventeenth century "fumbled their way" (ibid., p. 308) to establish paper currency issued by the BoE. This depended crucially in establishing the general credibility of the government vis-à-vis the population including its ability to extract taxes in the form of the currency. However, specie still formed an important role since it acted as a safety net in case the value of paper currency dropped precipitously. Under such circumstances banknotes could easily be changed into specie and the legal ability for it to be melted into bullion to flow overseas and be converted into a different unit of account conferred stability to the banknotes.

In sharp contrast to the L&E view, the BoE as a joint-stock private corporation was from its foundation deeply enmeshed in the affairs of the state. *Contra* the *laissez faire* doctrine that informed the early political economy literature of John Locke and others English economic development and the money creation that went with always rested on a political foundation that was legally-enforced. As Bowen (1995, p. 3) observes, historians generally agree with Lord North's observation during the American War of Independence (when he was prime minister) that the BoE was for all practical purposes *the* public exchequer and thus central to the country's domestic and international governance needs.

Being the kernel of fiscal finance, the BoE's steady credit supply to the state had become a permanent feature with the establishment of non-redeemable securities by the 1740s so that

“whatever the prevailing political climate might be, the state’s repayment of the sizeable loan from the Bank was not possible” (ibid. p. 9). And of course all tax payments were in BoE notes (Desan 2014), thereby providing a baseline value to the paper currency. Further, per the land mark *The Case of Mixed Money* (1605) which established the sovereign’s right to determine the precious metal content of coin, *The Case of the Bankers* (1690 – 1700) ensured that debtors’ contractual obligations to creditors were not violated (ibid.). In short, all the legal foundations were in place to make the privately-owned BoE the “engine of the state”.

In what can only be described as Orwellian thinking, the minimal state doctrine of liberal political theory occluded a completely different reality. No mysterious “market forces” were at work in the Whig-promoted political decision to install the BoE as the state’s banker, empowering one group of bankers relative to others such as the Tory Land Bank (Pincus & Robinson 2014). That political decision greatly enhanced the national debt during the Napoleonic wars, contributing to the financial deepening of the entire economy (Desan 2014, chap.6). Financialization in turn contributed indirectly to the promotion of manufacturing investment including the development of the capital-intensive transportation infrastructure (McColloch 2013). While war-making played a very important role in the development of public finance (Brewer 1988, Pincus & Robinson 2014) this was intimately connected to the developmental state role played by the government (Pincus & Robinson 2016). What is crucial to understand also is that overseas militarism, including the acquisition of colonies and the slave trade, was closely linked to the state’s role in promoting domestic socio-economic development and exports (Cain & Hopkins 2016, chap.2). International rivalries, in particular with arch-rival France, had an enmeshed political and economic dimension that crucially involved the role of public credit and taxation. In short, the very visible hands of the state were evident in both domestic and international governance.

Attempting to anchor bank notes in gold reserves became a plank of the “sound money” doctrine and also efforts by the government to discipline the BoE given its enormous power. The BoE, following the Banking School, sought to increase its margin of maneuver from the government by retaining more discretionary powers to issue notes. This took the form of the “Palmer rule” proposal (named after the Deputy Governor Horsley Palmer who became Governor from 1828 – 1833) in which the Bank would self-regulate note emission in line with its precious metal reserves (Kynaston 1995, pp.21-22). On the other hand, the Currency School influenced the thinking of Robert Peel, who became prime minister again in 1841, leading to the Bank Charter Act of 1844. The Currency School narrowly conceptualized money and the Act, seeking to restrain its growth via the ebb and flow of gold reserves of the BoE, and attempting to tie bank note

emission to the precious metal. This created the impression that “market forces” would constrain the Bank. As Walter Bagehot would comment several decades later, “By that Act the currency manages itself; the entire working is automatic. The Bank of England plainly does not manage—cannot even be said to manage—the currency any more” (Bagehot 2000, p.90). In short, despite its very clearly political role domestically and internationally, the Act reinforced the notion of the market as a pre-political institution that would mechanically control the money supply.

Figure 3 shows the metal reserves/GDP and bank notes/GDP ratios for the period 1696 – 1797, 1798-1821, 1822 – 1844, and 1845 – 1939.<sup>11</sup>

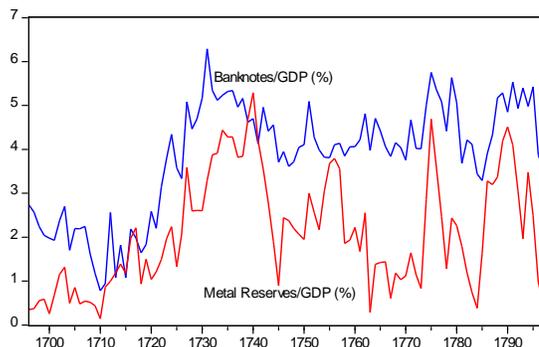


Fig. 3(a) Bank of England Banknotes/GDP and Metal Reserves/GDP, 1696-1797  
Source: Data Uploaded from Bank of England Website July 10 2020  
(<https://www.bankofengland.co.uk/statistics/research-datasets>)

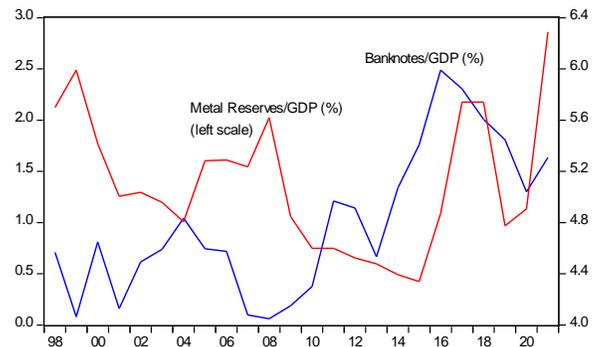


Fig. 3(b) Bank of England Banknotes/GDP and Metal Reserves/GDP, 1798-1821  
Source: Data Uploaded from Bank of England Website July 10 2020  
(<https://www.bankofengland.co.uk/statistics/research-datasets>)

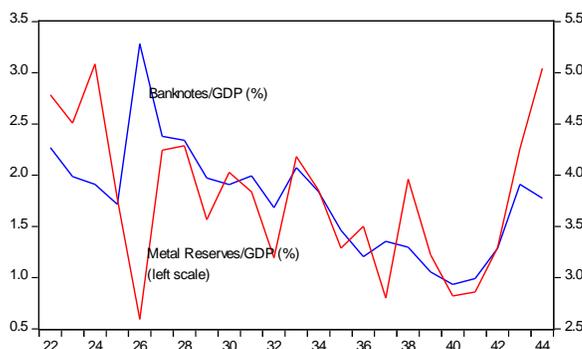


Fig. 3(c) Bank of England Banknotes/GDP and Metal Reserves/GDP, 1822-1844  
Source: Data Uploaded from Bank of England Website July 10 2020  
(<https://www.bankofengland.co.uk/statistics/research-datasets>)

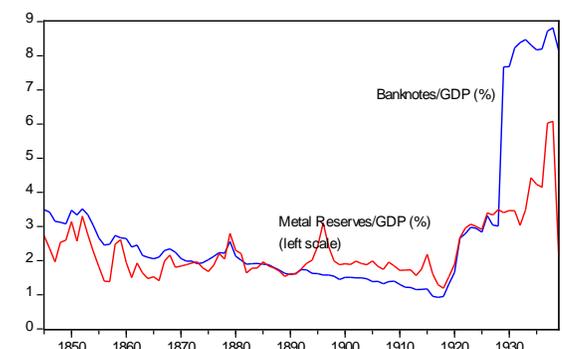


Fig. 3(d) Bank of England Banknotes/GDP and Metal Reserves/GDP, 1845-1939  
Source: Data Uploaded from Bank of England Website July 10 2020  
(<https://www.bankofengland.co.uk/statistics/research-datasets>)

As matter of comparison, given that it was Britain’s main imperialist rival, figure 4 below shows the same variables for France bearing in mind that the latter pursued a bimetallic system until the establishment of the Gold Standard around 1873 (Flandreau 2004).

<sup>11</sup> William Pitt’s Restriction Act of 1797 removed the requirement that BoE banknotes be gold-backed while the Restoration Act of 1821 reinstated this backing. Peel’s Bank Charter Act was enforced in 1844 (Alborn 2014, p.57 and p. 69).

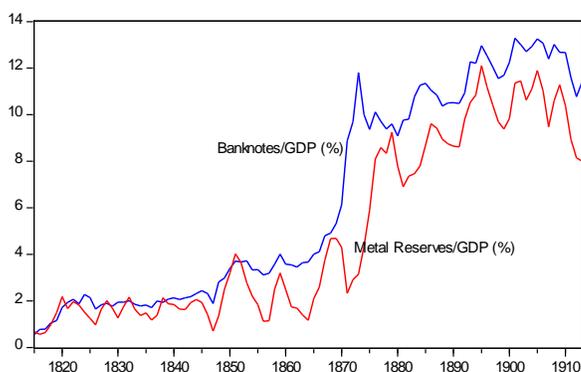


Fig. 4(a) Bank of France Banknotes/GDP and Metal Reserves/GDP, 1815-1913  
Source: Banknotes and Metal Reserves Data from Baubeau (2018) and Nominal GDP from Toutain (1997)

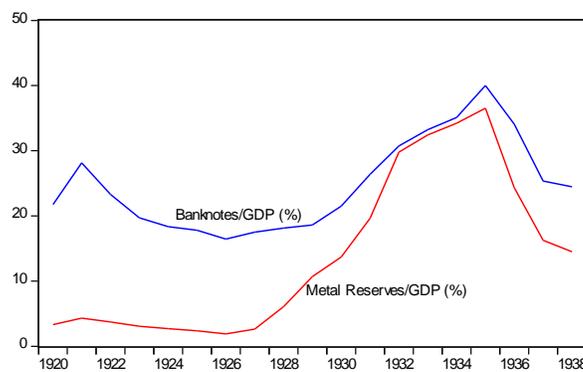


Fig. 4(b) Bank of France Banknotes/GDP and Metal Reserves/GDP, 1920-1938  
Source: Banknotes and Metal Reserves Data from Baubeau (2018) and Nominal GDP from Toutain (1997)

As figures 3(c) and 3(d) show, the period 1822 to 1929 witnessed the strongest correlation between the two variables. One sees a similar pattern for France at least until 1913.

There is a further implication here. Following the Banking School the endogenous money tradition has argued that the central bank cannot control the money supply since the pace of economic activity determines the growth of credit and thus the banknotes in circulation (Wray 1990). For the Banking School the BoE needed to self-regulate, following the “Palmer rule”, by tying note issue to the stock of specie. Thus in the Banking School/Currency School debate gold played a central role in the design of Britain’s monetary system (Narsey 2016, p.29). In short, as with France in regards both silver and gold ((Moudud 2019b), an adequate and readily available net inflow of gold from overseas was central to British monetary governance and economic development. So for example, an acceleration of note issue would have entailed an increase in the Bank rate to attract bullion.

As Walter Bagehot (2000) would write, by the third quarter of the nineteenth century the BoE had firmly established its role as the lender of last resort to the banking system, i.e. as the backstop to the economy. Its provincial branches supplied credit to a wide range of industries (Cairncross 1995). During the crisis of the interwar period, the high noon of imperialism when Britain preached the gospel of *laissez faire* and sound money to its colonies, the BoE became even more enmeshed with the Treasury to manage the public debt. Given the industrial slump during that period, the BoE also became closely involved, perhaps with middling results, in financing and restructuring industry (ibid.). One can infer that this broader economic role of the BoE reflected the obvious connection between slumps, taxation revenue, and the borrowing capacity of the government.

#### 4. Fiscal Finance, Race, and Empire

The notion that race is not simply an “add on” to the analysis of capitalism and should be integral to its study has a long intellectual history starting with the contributions of W.E.B. Dubois (Du Bois 1998, Prash 2008) and others. There is an extensive literature that has argued that from its beginning the political hardwiring of capitalism has involved the racialized ordering of space, whether domestic or international (Dawson 2016). Onur Ince argues that the development of global capitalism should be situated within the notion of the “‘colonial empire’ as a politico-legal framework” (Ince 2014, p.109) and that “The crucial corollary of a colonial perspective on capitalism is a heavy emphasis on the role of institutional and military force...” (ibid. p. 110). Quoting expressions from Carl Schmitt (2003), who was a German jurist and sought to provide a legal basis for Nazi *lebensraum* policy (Reilly 2009), Ince (ibid., p.112) observes: “Situating ‘beyond the line,’ the colonies represented not only the abode of the ‘savage’ or ‘barbarian’ peoples but also spaces where the European colonists could confront the indigenous peoples and each other with a savagery and barbarism unfettered by Europe’s ‘civilized manners’ (Schmitt 2003).”

Antony Anghie (2004) provides a legal history of colonial conquest by Europe. For our purposes it suffices to say that the continuous thread running through this history is the notion of Europe’s “civilizing mission”. While Anghie does not distinguish between the white-settler colonies (or dominions) and the colonies in Africa and Asia, it is obvious that his focus is primarily the latter with their populations of color. As Anghie argues, colonialism took an overtly racialized form, represented in notions of cultural backwardness, but by the early twentieth century Empire was increasingly justified by the seemingly neutral language of economics. However the ideological pursuit of Pareto efficiency and free trade in the colonies in the twentieth century had a fundamental racialized core with the dominions and the colonies of color treated differently by Britain.

Consider first taxation which as we saw above became increasingly progressive in Britain to support a wide range of expansive social welfare legislations because of pressures from the working class. And yet there was a different logic at play for the colonies of color in regards such policies. In such colonies social expenditures were a low priority with a major focus of colonial public expenditures being devoted to administration, the maintenance of law and order, infrastructural projects such as railroads, and initiatives to boost farm production to facilitate the export of cash crops (Frankema & Booth 2020, Gardner 2012, chaps 3 & 5). Gladstonian fiscal probity doctrine prevailed. However, general support of Empire by the British population did not translate into popular support of higher domestic taxes for colonial governance. Thus, a central feature of the

colonial tax system was that the tax burden fell on the colonized themselves (Frankema & Booth 2020) thereby upholding the principle of taxation with no representation. On the other hand, the taxation systems of white populations in the dominions, say South Africa and Australia, reflected a different political reality. Deepening taxation capacities were tied to national economic and social development strategies, needless to say disproportionately benefiting whites (Ndlovu 2017, Gwaindepi & Siebrits 2020, Reinhardt & Steel 2006). In the case of South Africa the highly regressive forms of direct taxes on Africans, such as labor and hut taxes, were imposed to coercively promote their labor supply (Forstater 2005).

Thus British attempts to pursue the Gladstonian fiscal orthodoxy tradition should be seen in its deeper context of colonial governance. It was not simply about balancing the books. As Bush & Maltby (2004) discuss, the Foucauldian literature situates taxation and accounting in the political and social contexts in which they operate. Far from being apolitical, as authors in this tradition argue, they are central technologies of governance distributing relations of coercive power and dominance in various ways, an argument that echoes a central aspect of Robert Hale's framework (Kennedy 1991). Not surprisingly there is a growing literature linking Empire to accounting (Amisette & Neu 2004). And, as Bush & Maltby (2004) discuss in the context of colonial West Africa, the taxation system and governance were intimately tied to a racialized discourse within the Empire. Paying taxes would contribute to their moral upliftment by forcing self-sufficient villagers to perform wage labor (Forstater 2005), inculcating the Victorian morality of hard work and thrift amongst the natives. As both Lord Lugard (Bush & Maltby 2004, p.22) and the French colonial administrator William Ponty opined (Conklin 1997, p.144) the payment of taxation would constitute a "civilizing mission" enabling natives to climb the ladder of humanity.

A system of accounting by definition implies a monetary system and thus the latter's political foundations. As Accominotti et al. (2010) argue racial politics were central to different political and legal arrangements in the dominions compared to the colonies comprising non-white populations.<sup>12</sup> The dominions always had a special relationship with Britain and treated as the "agents of British civilization, tastes, and values" (Narsey 2016, p.230). After all, what were often referred to as part of "Greater Britain", the dominions were a major destination for British emigration not to mention of trade and investment flows (Dilley 2012, pp.2-3). Needless to say, giving pre-eminence to "British civilization" did not imply that other European cultures were considered "inferior". For example consider the *entente cordiale* between the Dutch settlers and Britain after the establishment of the Union of South Africa in 1910 which gave the Boers much

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<sup>12</sup> Accominotti et al. deal with the crown colonies, especially India, Ceylon, and Jamaica.

greater freedoms, including the possibility for self-governance, under British tutelage while denying rights to the black majority (Bordiss & Padayachee 2011).

In the way that Narsey (2016, chap.9) discusses and Oliver (2019) elaborates in terms of the legal and constitutional framework, the dominions had already embarked on a gradual process of self-governance in the nineteenth century. The Imperial War Conference in 1917 formally recognized the full autonomy of the dominions within the context of the Commonwealth (Oliver 2019, p.1175) and a further move toward greater political sovereignty came about via the Balfour Declaration of 1926 and Statute of Westminster of 1931 (ibid., pp. 1188-1189). More sovereignty also went hand - in - hand with the development of banking systems including central banks such as the Reserve Bank of New Zealand in 1934 (Day 1935) and the Bank of Canada in 1935. Although the *Commonwealth Bank Act and the Banking Act* of 1945 formally established the Reserve Bank of Australia as the central bank, central banking in that country traces its roots to the Commonwealth Bank of Australia, founded in 1911, which eventually obtained control over note issuing in 1924.<sup>13</sup> Finally, as the projection of European civilization in Africa, white South Africans' demands were also satisfied by the establishment of the South African Reserve Bank (SARB) in 1921.<sup>14</sup>

Of course it must be understood that this growing self-governance in the dominions occurred under the controlling umbrella of Britain. And yet there was sufficient flexibility in this arrangement for the promotion of monetary expansion, financialization, and economic development. Consider for example the early development of welfare states especially in Australia and New Zealand (Accominotti et al. 2010) and pre-apartheid white-ruled South Africa (Seekings 2007). Or the financing of industrialization in South Africa (Gelb 1984) in which the SARB played a key role as central banks did elsewhere (Cerretano 2013, Epstein 2013, Moudud 2019b). The “sound money” doctrine, applied with vigor in the rest of Africa and in other colonies of color, was absent in South Africa. This is not surprising since Sir Henry Strakosch, “...an emissary of the British financial elite”(Bordiss & Padayachee 2011, p.S117) and an influential figure in the SARB’s foundation, opposed this doctrine arguing correctly that bank note emission and credit expansion were absolutely crucial for industrialization and employment (ibid., pp. S118 – S119).

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<sup>13</sup> See “A Brief History” of the Reserve Bank of Australia <https://www.rba.gov.au/about-rba/history/>.

<sup>14</sup> The Austrian-born British citizen Sir Henry Strakosch (Bordiss & Padayachee 2011) was very close to Montagu Norman, the Governor of the Bank of England. It is of significance that Norman had pro-Nazi sympathies (Chernow 1990, chap.20) and maintained close ties with Hjalmar Schacht, the Minister of Economics and President of the Reichsbank under Hitler.

The colonies of color, on the other hand, were not granted any measure of self-governance by Britain with the racial politics undergirding the two groups being the basis of their respective developments in fiscal finance and economic development. Consider the question of colonial sovereign debt in the crown colonies (Accominotti et al. 2010). Given its protected role, a colony's debt fault would have adversely affected the reputation and creditworthiness of the British government. The British government dealt with this problem in two different ways, depending on whether a colony was a dominion or of color.

In the dominions self-governance and the local demands for democratic institutions along with the rule of law served to increase the accountability of the governments vis-à-vis their creditors. Further, the Colonial Stock Act of 1877 and its adjusted version of 1900 extended the reach of the British courts in the event of disputes regarding these debt instruments, thereby securing the property rights of bondholders (Accominotti et al. 2010, p. 55). Together, the above institutional framework legally coded (Pistor 2019) the dominion governments' sovereign debts in such a way that the former enhanced their borrowing capacities (Accominotti et al. 2010).

Self-governance was not the basis of the colonies of color's relationship with Britain. Since "use of violence and coercion against a native population was perceived in the western world as legitimate" (ibid., p. 49) racism played the role of acting "...as a coordination device and was responsible for the maintenance of repressive institutions" (ibid.). This "coordination device" should be placed in the context of the broader cultural and intellectual *zeitgeist* regarding race, with its roots in eighteenth century France and its establishment in nineteenth century Victorian England, as Edward Beasley (2010) discusses. British economic dominance was interpreted in terms of the superiority of the "national character" vis-à-vis non-Europeans, a purported civilizational trait that created the institutional framework of the Glorious Revolution with its restrictions on executive power. However, the liberal framework of Locke and Mill, of which the Gladstonian "sound money" doctrine was an extension, could not possibly be extended to "backward" peoples outside Europe. For such "Oriental races", the paternalistic benevolence of Britain would be required. Democracy and self-governance were out of the question for such people since they did not understand such concepts. Further education in the colonies, which would have been the basis of demands for self-governance, needed to be kept at a low level as it would generate needless nationalistic aspirations ill-suited for "backward" peoples (Cain 2006).

In policy terms the racial coding of law implied greater centralized control over the colonies of color by Britain including the nature of the monetary hardwiring of the former. London took direct control in deciding how much colonial debt could be issued. For example in

the case of India after the 1857 rebellion, when the country became a full colony of Britain, the approval of the India Office in London was required before the floating of any debt. All colonies of color's access to credit from the London money market was "kept on a tight leash" by the crown agents who were appointees of the British government (Accominotti et al. 2010, p.53). This sequestering of colonial access to credit "main purpose was to safeguard the financial interests of the Imperial Exchequer" (Constantine 1984, p.15. Cited from Narsey 2016, p. 218).

In short a different legal and political framework, framed in terms of the British government's "responsible" governance over natives, was used to ensure investors' confidence in the case of the colonies of color. In sharp contrast to the dominions the crown colonies for example,<sup>15</sup> as Accominotti et al. (2010, table 2) discuss, had on average lower levels of both public debt and private capital accumulation over the period 1880 - 1913. And of course, Gladstonian fiscal austerity in these colonies accomplished exactly what its critics in England pointed out it would do, i.e. repress economic activity. Incidentally, this also maintained their subordinate dependent status in contrast to the dominions. As a self-fulfilling prophecy, low levels of economic development deepened such colonies' low creditworthiness in turn reinforcing the notion of cultural or racial "backwardness" as elaborated below. The parallels with how racism vis-à-vis African Americans has historically restricted their access to credit, deepened their inability to acquire wealth, and reinforced racial stereotypes is quite striking (Baradaran 2019).

The racially coded nature of money, itself the consequence of a particular mode of colonial governance, had another dimension to it. As Walter Bagehot discussed (Mehrling 2010), in the event of economic crises, when the demand for cash by banks, non-banks, and the general public increased, the BoE had also come to play the role of a lender of last resort by the 1870s. This involved extending credit to cash-strapped banks at a relatively high discount rate. The high discount rate also had the benefit, as Bagehot emphasized, of staunching the outflow of gold and/or attracting gold from other countries facing a rising demand for gold possibly to make international payments. However, as Mehrling emphasizes (ibid. p. 7), Bagehot's main focus was on the *domestic* aspects of the Bank's actions as a lender of last resort. In the way that Timothy Alborn (2014, p.77) discusses this Britain-centric thinking, which prioritized British access to global gold, reflected Bagehot's general racialized perspective on less fortunate and economically backward societies, which he saw as barbaric and at a lower rung of human civilization (Beasley 2010, chap.5), hemorrhaging gold. This Britain-centric approach is of significance for the discussion that follows in regards race and central banking.

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<sup>15</sup> Accominotti et al include Ceylon, Jamaica, and Mauritius among the crown colonies.

There are two aspects to the race - central bank nexus. The first one is the purported relationship between the ability to borrow, the “degree of civilization”, and the defense of European tutelage over non-white populations. One can frame this issue in terms of the introductory chapter of *Lombard Street* (Bagehot 2000, p.7) where Bagehot observes:

It is sometimes said that any foreign country can borrow in Lombard Street at a price: some countries can borrow much cheaper than others; but all, it is said, can have some money if they choose to pay enough for it. Perhaps this is an exaggeration; but confined, as of course it was meant to be, to civilised Governments, it is not much of an exaggeration. There are very few civilised Governments that could not borrow considerable sums of us if they choose...

Given Bagehot’s general attitude toward race and non-Western civilizations (Bagehot 1915, Beasley 2010), it is not difficult to infer from the above quote that, on the other hand, “less civilized” or “barbarian” people would find it more difficult to borrow money in England.

Such views of access to credit and race were, needless to say, not confined to Bagehot but shared by other financial commentators. So for example, *The Bankers’ Magazine* in writing about the bullion flows out of Europe concluded that these flows have “...gone to the Eastern and other barbarian nations, whose short advance in civilisation does not yet enable them to perceive the *ne plus ultra* in the shape of paper. They prefer the worship of the golden calf to bowing down before a *papier maché* tiger” (The Bankers’ Magazine 1873, p.428). In a parallel vein Bagehot’s views were echoed by *The Economist* magazine regarding the low creditworthiness of Turkey (The Economist, September 9 1871, p.1089) due to its purported cultural backwardness (“a Mahometan Papacy”).

The notion that the peoples of the Global South are politically immature was also echoed by distinguished economists in the twentieth century, including several associated with the Mont Pélérin Society such as P.T. Bauer and Fritz Machlup (Cornelissen 2020). All these economists characterized the challenges faced by the newly decolonized countries as coming primarily from the purported cultural backwardness and political immaturity of their peoples. For example in a 1969 article in which he referred to John Stuart Mill Machlup observed:

Let me recall Mill’s dictum that there can be no liberty for ‘savages’. Replace this harsh word by ‘politically and intellectually immature people’ and reflect on the proposition that full democracy may not be the most suitable system of government for such people; that, for example, the unlimited right to vote and elect the men who will govern the country may lead to the destruction of many other freedoms and also of any real chance for economic development. (Machlup 1969, p.142. Cited from Cornelissen 2020, p. 5)

A number of economists, notably Wilhelm Röpke who supported apartheid (Slobodian 2018, chap.5), explicitly linked civilizational “backwardness” to access to international credit, in line with

what Quinn Slobodian (*ibid.*, p.168) refers to as the interest rate theory of civilization. Röpke argued that the Belgian colonization of the Congo was beneficial for the latter because the tutelage of the European country provided the colony with a “civilizational helping hand” by making it more attractive to international creditors. To put it in Slobodian’s words (*ibid.* p. 170), “Because Röpke saw a perfect homology between the qualities of entrepreneurship, the civilizational categories of the West, and the functioning of a free market, interest rates were not just an economic but a spiritual index, an index of *Geist*.” It takes a breathtaking use of Orwellian thinking on the part of Röpke to recast King Leopold’s genocidal and kleptocratic rule in the Congo (Hochschild 1998) as an emancipatory mission.

Of course enmeshed with the racialized discourse on credit was the political project of restraining the colonies of color’s access to credit in London as discussed above. On the other hand, as Andrew Dilley (2012) discusses in regards Australia and Canada, the cultural politics of being British (recall the notion of “Greater Britain” alluded to earlier) and the associated governance frameworks installed in the dominions also made the latter more attractive for British investors giving them access to investment capital on more generous terms. As Dilley concludes British financiers’ investment “risk was in part judged through the lens of empire” (*ibid.*, p. 185). Clearly, greater levels of self-governance under the protection though not *control* by Britain as well as access to British courts to enforce investment contracts in turn deepened the dominions’ creditworthiness and accelerated economic development, thereby generating a virtuous cycle linking credit to investment (Cain & Hopkins 2016, chap.8).

Second, there is a further issue which pertains to the relationship between central banking, the global supply of precious metals, and race. Use of the Bank rate policy to explain the way in which the BoE attracted this supply explains very little about the European powers’ *actual* access to it. For example, in the limit that gold mines are under a country’s sovereign control the government can stop or restrain the outflows of the precious metal, i.e. the background property rights system come *first* before the operation of market forces.<sup>16</sup> But of course this is precisely what was precluded under the colonial system so that British and European access rested crucially on the global control over the production and distribution of gold and silver by these powers. As Narsey (2016, pp.46–47) points out, Britain controlled international flows of precious metals and some of its white dominions (Australia, South Africa, and New Zealand) had the most productive gold mines. Of course so was Ghana (whose colonial name was Gold Coast) rich in gold mines with a

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<sup>16</sup> Consider for example Cyrus Bina's (1985) very significant work regarding national sovereignty over petroleum in the Middle East and their conflict with Western oil companies and states that sought to maintain control over oil production.

long history of mining the precious metal before the arrival of the Portuguese in 1471 (Ofosu-Mensah 2011). However Britain demonetized gold in Ghana in 1889 “apparently to free the maximum amount of gold for export to Britain” (Howard 1978, p.127. Cited from Narsey 2016, p. 156). This of course precluded the creation of a central banking system in Nigeria or Ghana during colonial times like that in South Africa.

As Narsey (2016, chap.2) discusses, a key goal of Britain throughout the nineteenth century was to keep its colonies on the silver standard in terms of their internal economies while itself maintaining the gold standard at home. Further, enforcing silver on the colonies was also highly profitable for bullion traders in London who benefited from the global trade in gold and silver (ibid. pp. 224-225). Much of the colonies’ gold reserves were kept in London for deployment in the British money market and it was virtually impossible for the silver coins circulating in the colonies to be redeemed into gold. The preference for gold came about because of the long-term decline in the relative price of silver (ibid.), the powerful influence of London’s financial community, and the close ties between the latter and the Treasury, Civil Service, and the Board of Trade (ibid. p. 45). As Jevons argued (ibid. pp. 46-47), an international gold standard would be mainly to Britain’s advantage given its control over the global production and distribution of gold and that its dominions of Australia, New Zealand, and South Africa had the most productive mines. Most silver mines were also owned by British corporations. Other European powers and the US followed the same “silver policy” in their colonies (ibid.). France, for its part maintained a bimetallic system in which the legal ratio between gold and silver<sup>17</sup> was fixed at 15.5 by the Germinal Act of 1803 around which market ratios fluctuated. The legally-determined ratio remained stable until 1873 with the ascendance of the Gold Standard (Flandreau 2004). France’s abundant access to both metals (ibid. p. 8) enabled bankers in that country to profit from trading in them whenever one of the precious metals depreciated relative to the other (ibid. p. 215). Thus having access to a relatively fluid or elastic global supply of precious metals was a key strategic goal of the European powers. Further with gold as the foreign currency that settled international payments, greater demand for it by say the BoE during a domestic economic crisis would appreciate its value relative to that of silver, causing the colonies to come up with more of the latter to pay their gold-denominated foreign debts.

Like taxation, free trade and *laissez faire* were ideologically promoted by Britain as a way to extend the benefits of “civilization” to the colonies of color. These colonies’ purported “comparative advantage” in international trade would both benefit them as global suppliers of raw

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<sup>17</sup> This is the ratio at which a given quantity of gold is exchanged against the same amount of silver.

materials and cash crops while also promoting industrialization in Europe. In other words, each country in the global division of labor should “know its place” on the basis of its factor endowments whose global distribution was implicitly treated as a natural given. And of course money was conceptualized as a colorless and politically neutral liquid that facilitated domestic and international exchange. This casting of the nature of money as an apolitical medium would also be made by Walter Bagehot (2000, p.10. Emphasis added.) to explain international capital flows: “Thus English capital runs as surely and instantly *where it is most wanted*, and where there is *most to be made of it*, as water runs to find its level.” In short its water-like nature, discussed by David Hume and later David Ricardo to analyze international trade (Desan 2014, Moudud 2018), essentially made market exchange a barter-like process between equals in line with traditional nineteenth contract doctrine and liberal thought (Desan 2010).

Now the American Legal Realist tradition pointed out that equality in market exchange is an ideologically-created mirage because of the power differentials between the two parties involved in market exchange. Hale (1923) argued that the prior distribution of money and property between the two parties, itself the consequence of the society’s political and legal foundations (Hale 1952), were the key factors determining their relative power relations. The forcible demonetization of gold in the colonies and its monopolization by Britain and other European countries illustrates Hale’s argument. This monopolization, the international gold standard and the legal sequestration of silver within the colonies sharply reduced the latter’s global market exchange power. The colonies of color in particular had very little flexibility in accessing gold to make international purchases. It was virtually impossible for their silver coins to be converted into gold, as Narsey (2016) repeatedly observes. Of course the reverse was not true when European countries sought to purchase colonial products and paid in silver.

As discussed in the previous section the BoE’s gold reserves acted as a safety anchor to the fiduciary currency, enabling holders of the latter the flexibility to convert their sterling holdings into some other country’s currency while the gold anchor simultaneously allowed banknotes to expand with economic activity. No such luxury was available to the colonies of color. On the other hand, the white settler colonies such as Australia, New Zealand, and South Africa developed central banks by the early twentieth century with their growing banknotes and credit-systems backed by

gold (Narsey 2016, chap.9, Day 1935, p.153). Of course as colonies, this flexibility still existed under the tutelage of England.<sup>18</sup>

In the case of colonial India, there was great demand by Indian capitalists for the newly created Reserve Bank of India (RBI), established in 1935, to act as a development bank to mobilize credit across the formal and much larger informal sectors of the economy (Mukherjee 1992, p.232). However such an institutional framework would have conferred greater autonomy to the colony. One way by which the RBI's margin of maneuver was sharply curtailed was by a fixed exchange rate between the rupee and sterling even though other countries, including the dominions such as Australia and New Zealand, had devalued their currencies during the Great Depression of the 1930s (ibid.) to allow more flexibility to monetary expansion. The rigid institutional framework undergirding the RBI was justified by Neville Chamberlin, the Chancellor of the Exchequer, who stated that as a "child-like people" Indians could not be trusted to gain control over the RBI. Comparing the central bank to a dangerous knife with which the "child" could both harm itself and others, the institutional package created by the colonial authorities would effectively give the "child" the knife within a sheath for it to play with without actually being able to use it (ibid. p. 231). As Mukherjee (1990) discusses, during the Second World War period India was effectively conscripted to supply massive quantities of goods and services to the British causing acute domestic shortages of food and inflation and producing famine in Bengal in 1943.<sup>19</sup> This went hand-in-hand with a type of monetary conscription in which the massive sterling reserves of the RBI were being recycled in the form of very low interest rate loans to Britain. Further, the RBI had effectively become a major banker to the British state, printing the money to finance a growing budget deficit in India thereby fueling inflation and the famine in Bengal (Patnaik 2017). Needless to say, no such horrific consequences were imposed on the British themselves or on their white dominions. Finally, by 1944-45 the sterling assets of the RBI, in form of loans to the British government, were growing at the rate of Rs. 10 million per day (Mukherjee 1990, p.232). Nonetheless, even though India became a creditor country to its colonial ruler (ibid. p. 243) the powerful political web in which it was encased gave it very little freedom to use its sterling assets as its citizens desired.

In the same vein the nature of the West African currency board also prevented the growth of paper banknotes and bank credit as in Britain (Narsey 2016). Critics of currency boards argued

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<sup>18</sup> For example in the case of South Africa, Britain forced its international gold supply to flow through London and restrained the sale of South African gold to India and the US (Bordiss & Padayachee 2011, p.S120).

<sup>19</sup> See "Churchill's policies to blame for 1943 Bengal famine: Study" <https://www.aljazeera.com/news/2019/04/churchill-policies-blamed-1943-bengal-famine-study-190401155922122.html>

that they rendered money supply growth highly inelastic. As J. Mars, a prominent Oxford scholar whose criticism of British colonial monetary policies generated a hostile reaction in official circles, argued in order to promote economic development in Nigeria a central bank was necessary to emit fiduciary currency. On the other hand, local currencies in Africa and elsewhere had to be at least 100% covered by sterling-denominated assets. Thus an expansion of the domestic currency could essentially take place via a balance of payments surplus. Such an arrangement necessarily conferred a high degree of inflexibility to domestic currency growth thereby stalling economic development (Narsey 2016, pp.201–203). This deficiency was recognized by the Colonial Office itself in its internal communication, though never revealed to the outside world (ibid. 202-203). Finally, the monetary hardwiring in the colonies by all the colonial powers demonetized rival European powers' colonial currencies. As with Germany or France, Britain's colonial monetary policy had the goal of sequestering its colonies' currencies by limiting their regional or international circulation. This in turn ensured that each country's imports primarily came from the colonial power that controlled it. On the other hand the dominions were able to develop a more flexible monetary system that over time delinked their economic dependence on Britain (ibid. pp. 207- 208).

In short one can extend the argument made by Accominotti et al.'s (2010) regarding self-governance and race. The monetary hardwiring of the colonies of color was different from that in the dominions and in Europe. Domestic monetary arrangements also confined them to essentially being producers of cash crops and raw materials. Thus their margin of maneuver was constrained Panopticon-style by the colonial system of monetary governance. In line with Katharina Pistor's (2019) argument the financial assets that were legally coded were enforced by the colonial state benefiting not only the latter but financiers in England at the heart of whom was the BoE. Or as the American Legal Realist Morris Cohen (1927, p.29) put it albeit in a different context: "There can be no doubt that our property laws do confer sovereign power on our captains of industry and even more so on our captains of finance".

It is quite remarkable that a distinguished economist such as P.T. Bauer would uphold the virtues of free markets and free trade under colonialism while *simultaneously* claiming that colonized people were culturally inferior (Cypher & Dietz 2009, chap.7). Given that the former necessarily rests on the simple exchange model and the will theory of contracts (Desan 2010) it is unclear how he construed equality in market exchange from his racialized notion of inequality. One can perhaps conclude that this was quite simply *doublespeak*, a clever way of exploiting language to exercise power as in George Orwell's famous novel *1984* (Lutz 1987). The seeming neutrality and apolitical nature of money at the heart of neoclassical economics which became central to the

*laissez faire* project in the colonies was but an instantiation of a type of political language that, in the words of George Orwell, consists “largely of euphemism, question-begging and sheer cloudy vagueness,” while providing “largely the defence of the indefensible” (Orwell 1950, p.96). Such language occluded a deeper reality regarding markets and money which are fundamentally outcomes of political decisions and, when relevant, coded in racial terms. This racial coding was the bedrock on which the entire colonial project was monetarily constructed. Here was the Janus face of property and money. In the domestic governance context of Britain or the dominions money throughout the nineteenth century and into the twentieth century was deployed to promote the public welfare, the demands of increasingly democratic societies, and economic development. On the other hand, its racially coded nature also created radically different outcomes in the colonies of color, a project that not even the British Labour Party fundamentally opposed, leftist rhetoric about imperialism aside (Speers 1948).

## 5. Conclusion

This paper contributes to the literature on racial capitalism by deploying a key insight of the Law and Political Economy tradition regarding the constitutive role that politics and the law play in the monetary hardwiring of economies and their associated property rights. By focusing on two key elements of fiscal finance, central banking and taxation, the paper shows that while the pressures of democratic self-governance created one type of monetary hardwiring in Britain and its white dominions racialized politics created a different type in the colonies of color. In short, the particular monetary hardwiring of the colonies of color effectively “kicked away the ladder”<sup>20</sup> needed for their successful socio-economic development, occluding the very different policies pursued in Britain and the dominions. This left these colonies in a much more vulnerable state at independence, setting weaker foundations for their subsequent economic development, and providing the basis for bogus racialized explanations by prominent economists regarding the “causes” of the Third World’s problems.

Given the key role played by gold in the anchoring of banknote emissions by the BoE Britain’s global politics of gold and silver was central to its domestic economic development. The rhetoric of *laissez faire* in fact overlay extensive domestic and international political strategies to monopolize control over the production and distribution of precious metals. The BoE as a private joint-stock corporation was deeply embedded in the global politics of precious metals. Further, the presence and changes in taxation systems domestically and internationally exemplified the same

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<sup>20</sup> This expression is based on the title of Ha-Joon Chang’s well-known book (Chang 2002).

principle: private property was always embedded in the public sphere following different modes of governance in different historic and geographic contexts. Simply put, politics acting through the law was actively creating markets in different ways rather than protecting pre-existing and privately-created ones.

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