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The Underexamined Role of Money and How It Undermines Nozick's Case for Right Libertarianism*

1. Nozick's Rights Libertarianism

In *Anarchy, State, and Utopia* (ASU), Nozick asserted that certain individual rights are absolute, existing prior to the state and imposing moral limits on the actions of both individuals and the state. Specifically, Nozick resurrected John Locke's claim that no one may harm or interfere with another's life, liberty, and property.[1]

Nozick argued that natural rights should replace utilitarianism in guiding state policy. He correctly observed that state policy based on utilitarianism, which seeks to maximize collective benefits, is incompat-

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[1] Robert Nozick, *Anarchy, State and Utopia* (New York: Basic Books, 1974), ix, 10. John Locke, *Second Treatise on Government* (Indianapolis and Cambridge, UK: Hackett, (1690) 1980), § 6.

ible with individual liberty. Individuals will disagree on what collective benefits to choose, so someone's rights will always be trampled.[2]

In contrast, natural rights demand that the state's coercive powers are used only to defend individuals against force, theft, and fraud, and enforce contracts. The state may not use coercion either to achieve collective goals or to help others.[3] Infamously, Nozick asserted that all redistribution through taxation is coercive and wrong, on par with forced labor.[4] Contracts and transactions voluntarily entered into within a free-market framework are a legitimate source of property and thus sacrosanct. He acknowledged that the market's enabling of virtually unlimited individual accumulation produced radical inequality and widespread dispossession, but did not find this problematic as it did not breach the moral limits Locke established through his Sufficiency Proviso, that there be "enough and as good left over." Nozick explicitly understood the proviso as referring to the opportunity to improve one's situation and argued that the free market puts resources into the hands of the most efficient, thereby increasing opportunities for all.[5]

At the same time, Nozick was no anarchist and so needed to show the state itself was not inherently immoral and could be defended as a just institution compatible with a natural rights paradigm.[6] He did so by positing that a minimal state need not be imposed but could emerge as the unintended consequence of invisible hand processes acting on free individual choices.[7] This approach bypassed the unanimous consent that Locke required to justify the state, but which had long been criticized as implausible.

In his aptly named section, "State-of-Nature Theory, or How to Back into a State without Really Trying," Nozick's derivation of a minimal state begins with the free and natural emergence of money and free capitalist markets. Importantly, money and markets are not a product of a state, but a necessary condition of a just state. After the evolution of these institutions, the state largely arises as a market response to problems with self-enforcement of rights, notably property rights.

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[2] Nozick, *Anarchy, State and Utopia*, 28–29, 32–34.
[3] Ibidem, ix.
[4] Ibidem, 169.
[5] Ibidem, 177–182; Locke, *Treatise*, § 27.
[6] Ibidem, 4–6.
[7] Ibidem, 18–22.

2. My Claim

My general claim is that in making his case for right libertarianism, Nozick failed to properly examine the role of money, whose centrality in the free-market system has become clearer since ASU's publication half a century ago. I argue that Nozick's largely ignored oversight has significant implications to his case and the conclusions that need to be drawn.

First, although Nozick's derivation of a just state generated a vast output of valid critique, one aspect of it, his naturalization of money and the free-market system, has been largely accepted at face value. I suggest that this oversight has occurred because Nozick tapped into the received wisdom regarding the origins of these institutions, the product of a lengthy history of classical and neoclassical economic thought. Nozick's derivation of the state offers an opportunity to unpack this deeply rooted misconception by conducting a more thorough examination of money's origins and nature to identify where Nozick's explanatory account falls short.

Second, I draw attention to an outright omission in Nozick's defense of right libertarianism, one that has also been widely overlooked: Once a minimal state is established, what is its legitimate relationship with money within the context of a free-market system? My attempt to provide this missing analysis brings to light that money as explained by Nozick proves to be an inadequate underpinning for the free-market system he advocates. On the other hand, the type of money that makes the system possible is not and arguably cannot be compatible with his natural rights position.

I proceed as follows:

- First, I offer a critical description of Nozick's account of commodity money and its pre-political origins.
- Second, I present an alternative theory of money's origins, which serves to address logical problems arising from Nozick's account.
- Third, I redirect my focus from the origins of money to the role money needs to play in a free market system, to show that by limiting his object to commodity money, Nozick was barking up the wrong tree. Notwithstanding Nozick's incomplete defense of it, even if the case for the possibility of a naturally arising commodity money could be made, it is incapable of supporting a growing free market economy central to his libertarianism case.
- Fourth, I propose that credit-money, a utilitarian project that needs an authority akin to a non-minimal state at its center, is a neces-

sary condition of a growing free market economy. Furthermore, while credit-money provides the capacity to improve general material well-being, it does so in a manner that is redistributive.

3. Nozick's Pre-Political Origins of Money

Nozick limited his commentary on money to a two-page sketch of its natural emergence in the state of nature.[8] However, it is clear that his account closely drew upon and is compatible with Carl Menger's essay, "On the Origins of Money," which has played a highly influential role in neoclassical economic thought up to the present.[9] Menger built upon Adam Smith's notion of money arising from barter by applying rational choice theory. Utility maximizing individuals address barter's problem of the double coincidence of wants by deciding to hold what they judge to be the most saleable commodity, even if they do not desire it. A more saleable commodity will maximize their opportunities and reduce their costs in ultimately securing the goods they do want. Certain commodities like gold or silver become saleable due to having specific attributes of durability, portability, divisibility, low storage costs, and scarcity. Overtime individuals coalesce on one commodity that can be traded for all others. Menger and Nozick identified this most favored commodity as money.

Despite this account's Smithian roots, Menger downplayed and Nozick completely omitted a key fact that Smith had previously highlighted. Commodity money such as gold or silver, like other commodities, would be subject to the economic laws of supply and demand and its own value would fluctuate accordingly. It is for this reason that Smith posited labor and not money as the stable source and measure of value that underpins a free-market economy, albeit he failed to satisfactorily defend his position.[10] Smith's acknowledgment of commodity money's inherent volatility is more logically and historically consistent than the spontaneously arising stability and neutrality assumed by the neoclassical economists and Nozick. Smith incorporated history and politics into his understanding of the economy and took account of events such as

[8] Ibidem, 18–19.

[9] Carl Menger, "On the Origin of Money," 1892, transl. Caroline A. Foley, *The Economic Journal* 2(6) (June 2000): 239–255.

[10] Adam Smith, *The Wealth of Nations* (Printed on demand: Simon & Brown: (1776) 2010), I, chap. 7: 21–22.

the destabilizing impact of the discovery of gold and silver deposits in the New World, which significantly inflated prices for goods and services in Europe.

In contrast to Smith's historical approach and focus on labor as the source of economic value, the neoclassical economists began with a normative model of an ideally functioning market economy logically deduced from a few axioms, including the notion that each individual's subjective assessment of the utility of goods and services was the basis of economic value. Epistemological progress over time largely focused on refinements to causal linkages while basic axioms were largely maintained. At the center of the neoclassical paradigm is the General Equilibrium Theory (GET), which posits that the market price function will naturally allocate goods and services towards their most efficient use, which will be the equilibrium for the economy. One of the assumptions underlying GET is that money is a stable neutral mediator considered to have no impact on the exchange of real goods and services. In effect, GET represents a barter economy with money famously acting as an invisible veil. The model formalized what has since been the dominant view with regards to the economy: money is of no importance except when it gets out of order and that government interference with the market usually makes things worse.[11] However, as Joseph Schumpeter pointed out: "One cannot go very far on this route without becoming aware of the fact that the monetary processes that account for conspicuous disturbances do not cease to act in even the most normal course of economic life."[12]

In other words, the neoclassical paradigm assumed by Nozick neither defended the neutrality of money nor fully addressed how money achieves relative stability in its own value in the first place. Without stability, the legitimacy of the GET model is undercut. It also leads to the following unanswered questions:

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[11] Although neoclassical economics has become increasingly diverse, and this view has been modified and qualified in response to events, it has continued to persist as the mainstream way of conceiving the economy. Robert Skidelsky, *Money and Government* (Penguin Random House: UK and US, 2019), 10.

Since the 2008 global financial crisis and the 2020 COVID crisis, during which central bank intervention was needed to avoid economic catastrophes, there has been more focus on heterodox economic positions and much academic work written to discredit conventional wisdom.

[12] Joseph A. Schumpeter, *A History of Economic Analysis* (Taylor and Francis e-Library, (1954) 2006), 264–265.

1. How does a specific commodity come to be universally adopted when its own value is not settled or predictable? How does it become more predictable before its widespread acceptance? Nozick's account has a chicken and egg circularity that is not addressed.
2. Unlike barter, which is bilateral and immediate, transactions such as wage labor, debt contracts and investments take place over time and often involve more than two parties. How would a commodity money fluctuating in value serve as a reference to underpin and calculate the utility and profitability of such transactions?
3. What would prevent several commodities from functioning as mediums of exchange? Without universality within a circumscribed space, a precious metal is simply another commodity in barter and not money. What Nozick and Menger describe as commodity money fails to transcend beyond being anything more than a favored commodity.

4. The Political Origins of Money

The issues arising from Nozick's account can be addressed by looking outside the free market tradition to an alternative approach to money's origins provided by the lesser known but longstanding state theory of money. Several economic schools, most notably Chartalism, Keynesianism and Modern Market Theory, although differing in their details, support some form of the state theory of money.[13] The major difference between proponents of state theory of money and the commodity theories of the orthodox economists since Smith, pertains to what they each perceive as the essential feature that transforms an object into money.[14]

The orthodox economists treated the medium of exchange function as the essential one that establishes an object as money. In their narra-

[13] L. Randall Wray, "From the State Theory of Money to Modern Money Theory: An Alternative to Economic Orthodoxy," The Levy Institute, 2014, access 26.06.2022, http://www.levyinstitute.org.

All proponents of the state theory of money reject its naturalized origins. Some accommodate the fact that commodity money was used in some societies while others reject it altogether, arguing that in essence all money, even if it is represented by a commodity, is credit money, always reflecting relationships of power between debtors and creditors.

[14] There was no split between the classical and neoclassical schools on this aspect of money.

tive, it is natural for barter transactions to be facilitated by a scarce and desired third commodity. However, when barter transactions transition into a market system, where the decisions of multiple parties are dependent on commodity money functioning as a relatively stable mediator over time, this claim leads to the unanswered problems presented above.

In contrast, proponents of state theory point out that before an object can function as a medium of exchange in a market system, it must first be established as a unit of account. A commodity's social acceptance and enforcement as a stable reference by which to measure other commodities is the essential feature that makes it money. The material form that the unit of account takes is secondary. Before an object such as gold, coin, or paper currency can become universally accepted as medium of exchange, it must have its own value standardized, so that otherwise incommensurable goods can be compared in (relatively) stable units of it.[15] In other words, even gold's seemingly intrinsic value must also be established, accepted, and enforced.

As heterodox economist L. Randall Wray points out, orthodox economists have failed to establish just how the unit of account function naturally arises from individual bargaining. He argues:

> While it is fairly obvious that the use of a single unit of account results in efficiencies, it is not clear what evolutionary processes would have generated the single unit. Further, the higgling and haggling of the market is supposed to produce the equilibrium vector of relative prices, all of which can be denominated in a single numeraire. However, such a market seems to presuppose a high degree of specialisation of labour and/or resource ownership – but this pre-market specialisation itself would be hard to explain. Once markets are developed, specialisation would increase welfare; however, in the absence of well-developed markets, specialisation would be exceedingly risky. In the absence of markets diversification of skills and resources would be prudent. It seems exceedingly unlikely that either markets or money could have evolved out of individual utility maximizing behaviour.[16]

Wray neatly unpacks the circularity of invisible hand reasoning, describing why a market system cannot arise without a generally accepted

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[15] Geoffrey Ingham, *The Nature of Money* (Cambridge, UK and Malden, MA: Polity, 2004), 47; Innes A. Mitchell, "What is Money?", *The Banking Law Journal* (May 1913): 377–408.

[16] L. Randall Wray, *Credit and State Theories of Money: The Contributions of A. Mitchell Innes*, ed. L. Randall Wray, Edward Elgar (Cheltenham, UK– –Northampton, MA: Edward Elgar, 2004), 203.

money, while money as a generally accepted medium of exchange cannot arise without a market system already in place.

In contrast, state theory posits that the unit of account function is achieved by a centralizing authority like the state, which can impose and enforce taxes, tribute, and fines. The authority determines the form of payment it accepts for taxes, and uses this form itself when making its own payments. Individuals who need to pay taxes must acquire the money form that the state spends into circulation.[17] Keynes noted that while barter is a bilateral spot transaction, a three-way relationship is a necessary condition for establishing money's universal acceptability.[18]

The state theory of money is not only better supported historically,[19] but more logically coherent in that it addresses the unanswered questions that emerged from Nozick's account. It explains why individuals would adopt money – to meet their obligations to the state – and how its value is determined and stabilized – by the state's tax and spending policies and enforcement mechanisms. The acceptance of a specific money form by the state at a value established by it provides a basis for extending its use into the private sphere, both as an impersonal, readily accepted token in exchanges as well as a store of value to provide insurance against future uncertainty. It also provides the means for calculating transactions that take place over time such as investments and debt contracts.

However, money no longer founds the state; the state founds money. This approach not only supports money as a utilitarian or simply coercive project of the state, but also deprives Nozick of his ground for the emergence of the state under a natural rights paradigm.

Having considered the logical difficulties presented by Nozick's account of money's plausible origins, I move to the second issue of commodity money per se and the role it is required to play in Nozick's libertarianism… but cannot.

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[17] Ingham, *The Nature of Money*, 47–48.

[18] John Maynard Keynes, *A Treatise on Money* (New York: Harcourt, Brace, 1930), 3.

[19] David Graeber, *Debt: The First 5000 Years* (New York–London: Melville House, 2014); Marcel Maus, *The Gift* (London–New York: Routledge, (1925) 2002); Karl Polanyi, *The Great Transformation* (Boston: Beacon Press, (1944) 2001).

5. Commodity Money's Incompatibility with a Growth Generating Free Market

Nozick restricts his discussion of money to its commodity form whereby it is an inherently precious object in its own right. However, I argue that this form of money is incapable of underpinning what is a central organizing feature of his libertarianism: a growth generating free market system that creates opportunities for all. In other words, I claim that in *ASU*, commodity money serves as little more than a red herring. Now I consider why commodity money not only did not but logically cannot fulfill this role.

This aspect of my analysis requires me to sidestep Nozick's inability to satisfactorily defend a just state, and momentarily entertain such a possibility. Such a move leads to an obvious question: Once a just state arises, what is its proper role with regards to money under a natural rights paradigm? Since Nozick neglected such an exploration in *ASU*, I turn to Locke, who examined the relationship between a rights-respecting state and commodity money through to its logical conclusion.

Locke was explicit that natural rights limited the state's role to the regulation and enforcement of commodity money. Importantly, this entailed a moral constraint on the state not to create new money.[20] Locke's position is fully compatible with Nozick's own assertion that the limits that natural rights place on individual actions extends to the state, which has no right to transgress it. Nozick states:

> What persons may and may not do to one another limits what they may do through the apparatus of a state, or do to establish such an apparatus. The moral prohibitions it is permissible to enforce are the source of whatever legitimacy the state's fundamental coercive power has.[21]

How did Locke translate his normative demands into practice? Since commodity money links the value of the state's minted coin to its metal content, Locke found it immoral for the state to alter a coin's mint parity, once established. Specifically, in a growing market economy, it could not reduce the metal content of a coin relative to its face value for purposes of creating more coins as demand for them rose. Such action would cheat creditors, who would eventually be repaid in less precious metal,

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[20] George Caffentzis, *Clipped Coins, Abused Words, and Civil Government* (London: Pluto Press, (1989) 2021), Kindle loc 792–815; Desan, *Making Money*, 344–347.

[21] Nozick, *Anarchy, State and Utopia*, 6.

since contracts would be calculated using the state currency as the unit of account, while favoring debtors, who would owe less metal than was implied in their original contracts. Since commodity money must be dependent on the stuff it is made of, the legitimate role of the state is limited to maintaining the mint parity of its coins.

Nevertheless, Locke's policy – the only just approach that a rights-respecting state could adopt with respect to commodity money – proved unsustainable. An initial look at the historical events at the time will help us extract the logic behind why this is the case.

The seventeenth century English state faced two widespread monetary problems tied to commodity money: the widespread debasement of coins resulting from individuals clipping them; and general coin scarcity, further exacerbated by individuals hoarding coins or melting them down. Locke diagnosed that the source of these problems lay in the immorality of the coin clippers and melters, who were creating money *ex nihilo* and destabilizing the system.[22] His solution, consistent with his natural rights position, was for the state to remint debased coins to their proper metal weight while exacting harsher punishment for criminals who clipped and melted coin.[23]

However, clippers were the symptom and not the essence of the problems at hand. First, increased levels of domestic trade, requiring more currency for transactions, put pressure on coin availability. Second, growing international trade, where unregulated fluctuating gold bullion served as the medium of exchange, raised the demand and price of bullion and put pressure on the mint parity of English coin. Notably, debased coins continued to circulate domestically, as long as the state accepted them for tax payments, underscoring that their value did not de facto derive from their metal content, but from the state. However, any difference between the price of metal in international and domestic markets created arbitrage opportunities for speculators, who clipped or melted English coin to sell as metal abroad. Addressing the problem would require the English state, which at the time did not have the economic clout to affect international markets, to realign its currency's

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[22] Caffentzis, *Clipped Coins*, loc 671 in Kindle version.

[23] Locke's widely debated position resulted in "The Great Recoinage of 1696." George Caffentzis, *Clipped Coins*, chap. 1; Christine Desan, *Making Money: Coin, Currency, and the Coming of Capitalism* (Oxford: OUP, 2014), 361–364; Felix Martin, *Money: The Unauthorised Biography* (London: Bodley Head, 2013), chap. 8.

metal content with international market prices.[24] However, such actions were unacceptable to Locke, who correctly argued that they would turn the state itself into an immoral coin clipper. Locke's policy recommendations to remint debased coins to their original metal content were in fact adopted by the state and as a consequence already scarce coins became scarcer and led to reduced market activity. The ultimate failure of his policy ironically served to accelerate the acceptance of a new non-commodity form of money based on the debt of the English state.

Nozick would dismiss any historical account as an inadequate rebuttal to his position because of its contingent nature: it does not follow that just because things happened in a certain way, they *necessarily* had to happen in this manner. The terms Nozick sets require a rebuttal at what he calls the fundamental level that would logically exclude the possibility of his account.[25] Nevertheless, historical events can serve to shed light on overlooked gaps in Nozick's own explanation, which bring its plausibility into question. In this case, it is the historical thread of coin scarcity that helps identify the underlying inadequacy of commodity money in the context of a market system that is growing and how it can be overcome. It helps us to construct a fundamental explanation for why, if we are to be consistent with Nozick's normative demands of natural rights within the context of a growing free market system, the non-minimal state and redistribution are logically necessary.

There is a general tendency to conflate bartering taking place in markets with a market system that warrants unpacking. The bilateral nature of barter engenders a natural reciprocity between the parties involved. Barter may occur in a marketplace setting, but this is not the equivalent of a market system. Under the latter, individuals specialize in producing goods specifically to trade and depend on a money mediator. Trade is no longer bilateral since the money received for goods will be used for another purchase of goods elsewhere at another time. The underlying reason for why the market system becomes an engine of economic growth is that it is no longer reciprocity but the ability to make a profit that drives it. Economist John Smithin provided a straightforward way of grasping this key point by drawing on Marx's circuit theory of mon-

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[24] The other theoretical option to address this issue was the prohibition or regulation of international trade, but putting aside its feasibility, such coercive action would also be beyond the remit of the state under a natural rights doctrine.

[25] Nozick, *Anarchy, State and Utopia*, 6–9.

ey.[26] It highlights that in a capitalist market system, money (M) is used to buy commodities, including wage labor, to produce commodities of higher value. These are sold for more money (M1). The key but generally overlooked question is where does M1 come from? Marx argued that profit, or M1 minus M, results from exploiting labor. This is certainly possible on the level of the individual relations, but fails to work in the aggregate, since redistributing money from laborer to owner will not create new money in the system. With no new money, profit measured in terms of money is a zero-sum game and not an engine for economic growth.[27] In other words, the money supply needs to grow in tandem with the growing material wealth that it represents. If material wealth is to expand, so does the unit of account in which wealth and profits are calculated and realized. Consequently, a critical, if not necessary, condition of a growth economy is for its money supply to be elastic and capable of expanding. The fundamental shortcomings of commodity money are that the quantity available for commercial relations is exogenous to those relations; its supply is relatively inelastic; and at a certain level of trade and production, its supply is largely insufficient.

6. Credit Money and the Market Economy

Nozick's account of commodity money not only fails to ground the just state, but also detracts the reader from what money in market capitalism is and arguably needs to be. Credit-money and not commodity money appears to be one of the necessary conditions for a growing market system and should have also been an object of Nozick's analysis. Since it

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[26] John Smithin, *Rethinking the Theory of Money, Credit, and Macroeconomics* (Lanham, MD–London: Lexington Books, 2018), 71–73.

I bring up Marx's circuit theory merely to help clarify my own point about the logic of money in the free-market system and not to enter into a critique of Marx in this article.

[27] In this light, we can understand why wealth in the mercantilist era was associated with gold, which provided liquidity in international markets, while lack of it created bottlenecks in trade. Gold indeed turned profits into a zero-sum game, limiting profit to a redistribution of its finite quantity. Smith changed the then existing association of wealth with gold to the quantity of goods and services a nation produced. However, by Smith's time, almost a century after Locke, English credit money, whose links to gold were greatly attenuated, became more readily accepted in international trade. This was based on the growing commercial power of England, itself based on the stability and availability of its credit money.

was neglected by him, I will try to briefly fill in this lacuna, again using history for illustrative purposes as well as a basis for exposing gaps in Nozick's own account. I have largely relied on Christine Desan's *Making Money* for the details of my reconstruction.[28]

With the establishment of the Bank of England (BOE) in 1694, a new form and structure of money began to take shape: its new form was that of paper banknotes and bank deposits, while its new structure was based on debt (and its credit counterpart). The new credit money was originally created from the state's own debt obligations to the BOE, which for the first time were collateralized by future tax proceeds that Parliament had earmarked for debt repayment and interest payment. Linking state debt to its anticipated tax collections – representing the collective product of the nation – served to enhance the creditworthiness of the state, which had a long history of defaulting. An important element in the new construction of money was the fact that the level of debt the state could incur was endogenous to the national economy that underpinned it and could grow as it did, in a mutually reinforcing manner.

The BOE did not fund the State's debt with coin, but with its own promises to provide specie on demand. In essence, the bank swapped the state's debt, which was long term, for its own short-term debt. The BOE's obligations to provide the state with specie on demand were ultimately reflected in its banknotes, which were themselves transferrable and could circulate.[29] Importantly, banknotes represented coin the BOE did not have to cover all demands for specie, had the state called them in at once. Instead, the state privileged BOE banknotes, first by employing them for its own internal payments and eventually accepting the banknotes alongside its own minted coin for payment of taxes. With these steps, the state endowed BOE banknotes with an equivalency to its minted coins, creating a general demand for them, and a basis for their general acceptance. It promoted the circulation of banknotes among the public as credit money, functioning as a surrogate for scarce coins and

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[28] Desan, *Making Money*, chap. 10.

[29] The transferability of debt contracts to third parties was an important technical aspect of credit money in which yet again the state's role was central. Historically debt contracts were personal, between parties known to each other, and their transfer to third parties as a form of payment in lieu of coin was practiced but limited to personal relationships of trust, as they had no legal underpinning. The Promissory Note Act of 1704 made notes issued to an unnamed bearer legally binding and enforceable by the state. In other words, the state established the legal conditions for impersonal contracts that enabled banknotes to circulate and ultimately become paper money.

reducing the need for them, while at the same time increasing overall liquidity and enabling a growing domestic market system of exchange. In effect, since banknotes were valued by the state on par with coin, they served as a unit of account and medium of exchange in their own right.

The BOE also extended its issue of banknotes to private individuals. First, it issued banknotes in return for actual coins deposited for safekeeping, with the expectation that the banknotes would circulate and decrease the need to redeem the currency deposited.[30] It also issued loans and discounted commercial bills of exchange in its own banknotes. As with the state, these banknote-generating loans and advances to private individuals were underpinned by various forms of collateral. However, the quality of private collateral, in terms of the probability of its eventual conversion to money to repay loans and recoup advances was clearly lower than that of the state's own collateral, as represented by future tax revenues. Nevertheless, in practice, all banknotes were fungible, and the value of banknotes backed by private debtors were also accepted by the state, not at a discount, but at par with its minted coins. As a result, these private loans and advances also served to expand the level of credit money in circulation.

It is worth reemphasizing that while all banknotes were promises of the BOE to pay specie on demand, it never possessed more than a fraction of the coin needed to meet all its obligations. Its promise to convert banknotes to specie was always a smokescreen to help generate their acceptance. The BOE created credit money in response to actual liquidity requirements generated by the needs of the state and growing commercial markets in a closed circle of obligations which stabilized the value of the banknotes, though not without risk. We typically refer to banks as financial intermediaries, implying that they redistribute existing money on deposit. This was indeed the encouraged perception at the time that the shift to credit money was occurring and still generally remains the case. However, this understanding is wrong and misleading, since the BOE, which established the framework for credit money and future banking systems, created money because of the privileged status the state grants bank obligations, by enabling and ensuring their equivalency with state currency. Nozick asserted the free-market sys-

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[30] An often-overlooked detail is that banknotes are not a receipt for currency deposited. Once deposited, currency is no longer the property of the owner. Once currency is deposited, it becomes the legal property of the bank in exchange for claims for the currency on the bank, in the form of its banknotes and deposits.

tem provides the greatest opportunities for all by putting resources in the hands of those who can best use them productively. However, one aspect of the market he failed to acknowledge is its credit money underpinning. Credit money can itself be understood as a utilitarian project in that it was specifically established with the help of the state to underpin a free-market system for the collective purpose of providing the opportunities that Nozick highlighted, and that Smith more famously described as increasing the wealth of the nation. Many aspects of its construction are incompatible with a natural rights paradigm: the central role of the state and the privileged position the state grants banks in creating credit-money; the banks' ability to ration and direct credit-money to private individuals at their own discretion; and the privileged access that holders of physical and social capital enjoy to newly created bank credit-money in the form of loans.

Equally important, if not more so, is the effect of credit-money's elasticity, which results in an incessantly changing money supply that is not naturally arising, but largely determined by the level of loans extended by the bank to the state and individuals in the form of its own circulating obligations. It alters the relative value of every individual's money and holdings, both in terms of what one's money can acquire (its purchasing power) and the value of one's holdings in monetary terms. In other words, like redistributive taxes, though more stealthily, state and bank actions effectively redistribute the relative value of each individual's property, be it holdings, money, or money denominated contracts. Recalling Locke's coin clippers, elastic credit money essentially makes this illegitimate action an integral part of the monetary system.

And yet, without this arrangement, the growth and dynamism of the free-market system and the many material benefits associated with it arguably disappear. The fact that credit money has historically remained a constant of the free-market system certainly does not mean that it had to happen this way. However, if there is a plausible rights respecting alternative to credit money per se, or an alternative way of constructing credit money without the state, Nozick does not provide one.[31]

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[31] Proponents of cryptocurrency argue that a state is not necessary. However, to date, the value of cryptocurrency has been highly volatile, and its major use is for speculation, money laundering, or as an alternative, though volatile and unreliable, token of value for individuals with no other options (e.g., where their own national monetary systems are untenable). New forms of cryptocurrencies that try to address the stability issue (e.g., Tether) have linked themselves to state currency, without the benefit of the state's enforcement capabilities. To date, cryptocurrency has not established itself as a generally accepted

I close this section by entertaining one direction that might save Nozick's scheme, though there is no space to develop it here. In his Entitlement Theory of Property, Nozick explicitly emphasizes the historical importance of how property was actually acquired with respect to natural rights as the basis for their legitimacy. Accordingly, rectification for all illegitimate holdings is required, although Nozick does not provide practical details.[32] The fact that in a free-market system, credit money (and the state that enables it) systematically creates individual levels of holdings that would be deemed unjust under a natural rights paradigm, suggests that under a right libertarian doctrine, a case for broad-based redistribution can be made.

Conclusion

In the US, there has been a historical tendency to believe that individual labor and frugality are the liberty-reflecting sources of property in a free market. This belief has been supported by a generally unexamined acceptance of money's natural evolution that has left its actual construction largely unquestioned. As a result, the complex design of credit money as a foundation of the free-market system has largely remained hidden in plain sight. Under it, one key determinant of property is one's position in a monetary hierarchy, which from a natural rights viewpoint is illegitimately established by the non-minimal state and the financial institutions it privileged. Another determinant of property is the systemic redistribution of wealth that results from credit-money's supply elasticity. The ever-expanding and contracting money supply constantly revalues the holdings of everyone in the system. It is a subtle infringement on not just property but individual liberty.

Money appears to undermine Nozick's libertarian assertions about the free market and the state at its very foundations. Ultimately, credit-money, established as a core building block of the free-market system, is the product of the very utilitarianism that Nozick's rights libertarianism was meant to overcome.

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unit of account or medium of exchange. On the other hand, central bank digital currencies are currently being considered as a way of sidestepping the banking system for transmitting liquidity. However, if successful, this would serve to maintain money as a utilitarian project with the state at its center.

[32] Nozick, *Anarchy, State and Utopia*, 151–152.

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Summary

In *Anarchy, State and Utopia*, Nozick presented his doctrine of right libertarianism, largely a contemporary restatement of Locke's moral imperative that an individual's rights to his life, liberty, and property are absolute and place limits on state action. Parallelly, Nozick espoused the free-market system as a framework that not only respects individual rights but ensures material benefits. While the free market results in radical inequalities in holdings and widespread dispossession, Nozick treats the process as morally just, and any state redistribution through taxation as wrong. However, neither Nozick nor his many critics fully considered the role of money in capitalist free markets, an omission I begin to address.

Nozick asserts that money emerges pre-politically through the uncoerced actions of individuals, and that it derives its value from the commodity that underpins it. This conception of money underpins Nozick's claims that a minimal state can be just and that the free-market system is a moral, efficient, and neutral allocator of resources.

However, Nozick's approach omits addressing how money's general acceptability and stability are achieved. Answers can be found in heterodox economic paradigms, which put the state at the center of money creation, rendering money (and the state) incompatible with natural rights. Even if these issues were resolved, by insisting on money's commodity nature, Nozick ignores the seventeenth century revolution in money, necessitated by the emergence of free-market capitalism and commodity money's inability to underpin it. In other words, it is not commodity money but credit money that should be the proper object of Nozick's analysis. I go on to analyze what credit money is, how it arose, and why some form of it is necessary in a free-market context. Ultimately, I argue that it is not compatible with natural rights and is itself redistributive.

Keywords: money, distributive justice, Nozick, Locke, free market capitalism, natural rights