

# FINANCIAL CRISES ON THE THRESHOLD OF THE 21ST CENTURY

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## Introduction: the Value of Money

The fact that the 'wealth of nations' (Adam Smith) appears not only as a 'huge collection of commodities' (Marx) but also as a *monetary asset* has to do with the social form of money, which has developed so imaginatively through history. For money has a sensual effect which makes it, as a stimulus for innovation (from the cowrie shell through gold to cyber money), comparable at the very least to forms of transport from the horse-drawn carriage to the jumbo jet. The material form of money enables all qualities to be reduced to one: it makes apples and pears, pneumatic drills and nappies the same and so renders them comparable on the market. Once it has been reduced to this one quality of money, any quantitative variety is just a monetary characteristic. 'Having<sup>7</sup> triumphs over 'being'; the dynamics of accumulation are let loose. Money is differentiated in *time* merely by means of interest, and moneys (in the plural) become comparable in *space* by means of exchange rates.

So money has a price.' Interest expresses the fact that under conditions of developed capitalism money is potential capital, 'a means for the production of profit' (MEW 25: 351). Whoever makes use of this means must ensure that profit is produced. Thus money and its price, interest, exert a 'hard budgetary constraint' (Kornai), it functions as a material restraint. Keynes, as Marx before him, states that money is like 'the drink which stimulates the system to activity' (Keynes 1936: 173), the decisive difference being that Marx examined closely the social relations which establish the system of incentives and in doing so discovered money's *social form* which requires analysis in order to-understand the *functions* and *institutions* of money. Because the process of globalisation has also caused the 'hard budgetary constraint', money's restraining function, to become globalised, it is now possible to talk of the existence of a 'ubiquitous money fetish' (see Altvater/Mahnkopf 1996).

The social form of money has in effect been understood, the 'money

riddle solved' (Marx, MEW 23: 62), when the material form of commodities has been recognised as a social relation which requires an external appearance. Money makes societies uniform by allowing all substantial variety to be wrapped up in its formal quality as the common referent; money is so to speak a *socially constructed substanceless nothing*. Yet without this nothing no-one is worth *anything*:<sup>2</sup> money is the 'true common being' (Marx), the *moneytheistic* correlate to the *monotheism* of Judaism, Christianity and Islam:

... Everything can be had for 'cash', which itself as something external to the individual is to be caught (sic) by fraud, violence etc. Everything can thus be appropriated by all and what the individual can appropriate or not is dependent on chance, for it is dependent on the money in his possession. Thus, the individual per se is established as the master of everything. There are no absolute values for value as such is relative to money. Nothing is unsaleable as everything can be sold for money. There is nothing higher, holy etc. as everything can be appropriated with money. The 'res sacrae' and 'religiosae', ... absolved from the 'commercio hominum', do not exist before **money**-, as before God, all are equal. it was splendid how the Roman Church was the main propagandist of money in the Middle Ages (Marx 1953: 723).

Yet at the same time money also splits societies, for money always has a double purpose: a claim (monetary asset) on the one hand, and a corresponding obligation (debt) on the other. Thus, a social relationship between creditor and debtor is established which can become an entrenched one-sided conflict. When the relationship is global, so is the conflict between creditors and debtors. This is one of the main theses of this essay.

Because money constitutes a social relationship for which it is the referent, it is not surprising that substantial money (above all metal money, gold) has freed itself from its substantial form during the course of its history. This is particularly clear in the example of the development of computer money ('cyber money'). It no longer exists as gold, not even as paper, but merely as a specific sequence of substanceless bits. In the field of commerce, paper (cheques, exchange, bank notes) took the place of gold at a very early stage. This always begged an answer to the question of the value foundation of money, of the connection between monetary and real value, of the relationship between the monetary and the real **economy**. This was easy and unambiguous under the gold standard: after all, it was the value of gold metal which formed the basis of the value of money. With the dissolution of the gold standard the value foundation of money is institutionalised everywhere in the central bank, whose responsibility is to maintain institutionally the scarcity of money in order to secure its value internally and externally (in the competition between currencies).<sup>3</sup> That is difficult enough as world exchange and finance markets have become so deregulated after the collapse of the Bretton Woods currency system, which recognised the dollar as the 'gold' anchor of the world currency, that even the power of large and strong central banks to fix the value of national currencies is severely limited.

The foundation of the value of computer money proceeds, as with paper money, by means of the institutionally regulated scarcity of money. But this is not sufficient, as new regulations to ensure technical and economic security must be developed by the central bank so that computer money cannot be privately reproduced – which in principle is technically possible within a split second – infinitely quickly and in infinite amounts. It severs itself from the rules to which money as 'public property' is subject. Money becomes, and this is the arch-liberal utopia of von Hayek, privatised (Hayek 1978). A look at the financial innovations which have taken place in recent decades does in fact show the scale which the privatising bifurcation of money from real economic relations and from ties to political regulation on the globalised markets has attained. However, the **privatisation** of monetary assets has a flip side, namely a tendency towards the socialisation of debts. We will deal with this below.

So money, in the historical conditions of the late 20th century, emancipates itself from the substance which gives it a material and local character. Money emancipates itself from work; the monetary and the real economy part company. Money becomes the referent of real relations, which, however, functions like a draconian tablet of laws: money requires social actors to observe the rules. It transforms society into a money society, into a divided society, as owners of monetary assets draw income from their monetary assets and debtors must bear the costs of their debt **service** through real production. Money and work thus become opposites.

### Monetary Society versus Labour Society

The banality of **Marx's** observation (in a letter to Kugelmann 11th July 1868) '... that any nation would perish which stopped work for, I don't want to say a year, but a few weeks. . .' (Marx, MEW 32: 552) is of course valid; without work, no society. However, the question of the **form of socialisation** has not yet been addressed. For it is clear that not every job is important to society or recognised as such, otherwise capitalist societies would not permit the scandal of high mass unemployment: 17 million people without work in the European Union, 35 million in the OECD and world-wide 700 million people are without work or in unstable employment. Work obviously only proves to be 'necessary to society' when its products are 'turned into value', i.e. when they encounter a solvent demand for money. This process presupposes society's form of value and continually regenerates it. Without money in the modern capitalist society there is no social cohesion. The paradox can consequently be observed in the fact that commodity producing societies are **at the same time both monetary societies and labour societies**. The **substance** of value is formed by labour, the **material form** of value unfolds as money,

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which then intensifies social relations to the level of material constraints. If interest rates are expected to rise because inflationary tendencies are strengthened by an increase in employment, the rates on the stock market fall: this always happens now when positive US job market figures are published (Financial Times, 9 March 1996). Good news for the labour of the labour society is bad news for the stock market jobbers of the monetary society. The norms of the monetary society define the 'system of societal labour'.

The material form of money is more closely determined by the functions befitting of money. In functional analysis Marx and other theorists of money meet – and they must immediately be separated from one another. This separation is necessary not only because Marx explained and reconstructed the material form of money before its functional analysis (a monetary theorist from mainstream economics would give as little countenance to such an endeavour as would sociologists who are 'rediscovering' Simmel over Marx), but also because two fundamental functional determinants can be distinguished: money with regard to the world of commodities (the value of which money measures and through which commodities circulate) on the one hand, and money with regard to itself, money as money, on the other.

Looking at the latter aspect, Marx deals firstly with money as wealth, which in this form ('the function of storing value') becomes the incarnation of societal wealth, a powerful means of access to resources and at the same time the object of desire of those who amass wealth. Money controls them, not they the wealth. Secondly, money functions as a means of payment, as credits. Money is advanced by the creditor in order to receive more money in return after the expiry of a deadline. Money, with interest, values itself only against itself. It establishes new social relations, namely between the creditor and the debtor. The former owns and disposes over monetary assets, the latter disposes only over liabilities: he has monetary obligations to fulfil. Debtors must obey the logic of money imposed on them by the owners of monetary assets as the personification of monetary rationality. Interest is like a tax levied on production. It enforces acquisitive economic behaviour<sup>4</sup> and the corresponding 'acquisitive economic rationality' (Max Weber). This is also responsible for the enormous capitalist dynamic which neither recognises nor acknowledges any behavioural maxims other than the logic of money. For instance, one might have thought that at least creditor-debtor relation in the countryside still might be 'embedded' in the community. But as the farmers' debt crisis in the United States during the Reagan era clearly showed this kind of 'embeddedness' in times of globalised financial relations is not more than a 'premodern' relic.

Acquisitive economic effort can founder of course due to real material relations. Creditor-debtor relationships which have foundered in real terms

can be kept afloat monetarily by money not only being devalued by the direct loss of assets, but also through inflationary processes. In the course of these a real redistribution occurs: *from* those who have limited chances of securing assets or whose income from contracts is not adjusted to the inflation rate to those who dispose over real assets and/or are in the position to switch to stable assets. This possibility becomes greater the further the globalisation of finances is advanced and the easier it is to mobilise monetary assets between currencies. To facilitate the exploitation of this possibility is one of the stimuli for financial innovations on the globalised financial markets.<sup>3</sup>

The thrust towards standardisation on the modern world market is established in many theoretical traditions. 'Society today is unequivocally world society', a 'result of evolution' (Luhmann 1987: 585; 557). Of course, these evolutionary processes affect the forms and functions of money in the global context. For the role of money in the creation of the 'world society' must be ascertained if the form of socialisation is indeed determined more by money than by labour. Money reduces different qualities of commodities to the single one of money, which is then distinguishable from itself merely quantitatively. Qualitative standardisation makes a quantitative differentiation possible and thus implies that national societies have differing possibilities to partake in the gratifications of the world society. Inequality is thus produced in the global context, and actually more markedly than in national units as the implementation of corrective redistributive measures is considerably more difficult in the 'world society' than it is nationally.

Yet, without money the functional difference identified by Luhmann or Durkheim as an element of Modernity could not exist. In Luhmann's analysis money makes itself independent by becoming a series of acts of payment which remains uninterrupted only when the ability to pay is maintained (c.f. Luhmann 1990): 'an economic system [consists] of payments. ... For payments have a double purpose: the creation of the ability to pay for the recipient and the creation of the inability to pay for the payer. Such individual events are only possible in a dynamic system – that means with the precondition that the ability to pay and the inability to pay can be passed on or palmed off [elsewhere]...'. That Luhmann here still regards money as means of circulation is demonstrated by his reference to the circulation metaphor and to the fact that 'the credit mechanism . . . [creates] a degree of leeway with the possibility of creating the ability to pay even where this does not result automatically from the circulation' (Luhmann 1990: 111). As an abstract measurement, money is such an irresistible object of fascination that it allows, indeed inspires, the abstraction from real economic processes. This occurs even when money is functioning as a means of circulation, in which it is unthinkable without the real commodities (goods and services) which it circulates. With regard

to the codification of economic communication through monetary payments, Luhmann does not only exclude all metabolic processes from the economy – 'whenever ... money is involved, the economy is involved ...', but not in the case of the pumping process which extracts oil from the ground ...' (Luhmann 1987: 101) – he also writes that 'the private budget [has been] removed from the capitalist sector of the economy [and that it would become] unable to pay if it did not provide income by other means, mainly through labour' (Luhmann 1990: 110).

The economic system of monetary communication is clearly tied to the social organisation of the *metabolism* between nature and society, even if money bifurcates itself from real relations and imposes its behavioural logic onto all other systems of behaviour. (Exchange) value is worth nothing without utility value, thus the relationship between societal value and money requires as its substratum the real objects with which the variety of individual and social needs is satisfied. The use values have a material and energetic aspect and can be described as materials of low entropy. The fetishism of money, so vividly described by Marx, does allow the abstraction of the material and energetic dimensions of social communication in the social subsystems and the systemisation of these in academic semantics. Yet it does turn out that metabolic processes – labour is an engagement with nature and thus a transformation of material and energy – occur to maintain the communication qualified by **payment/non-payment** within the economic subsystem. Consequently, a monetary society can only be adequately interpreted as a labour society. To have drawn this out in all its detail is **Marx's** great achievement; later monetary-theoretical discourses come nowhere near this, neither Simmel's, nor those discourses which refer to Keynes, nor the compartmentalised Luhmannian communication formalism. Thus the money of the market does not merely sever itself from the real economic realm; it also severs the theoretical discourse from real ties. In money, the market's tendency of 'disembedding', of which Polanyi (1979) speaks (c.f. also **Altvater/Mahnkopf** 1996, chapter 4), attains its full force. This turns out to be the case when we deal more closely with money as a means of payment, i.e. with the world-societal relationship between the owners of monetary assets and debtors.

### Monetary Assets and Debts

Debtors must pay the price of money – interest – to the owners of monetary assets, and for this reason they must use money in a capitalist manner and produce a sufficient profit (or have it produced). For interest is settled out of profits. Interest is, in so far as it is ascribed a *real* dimension and not just a *monetary* one, a part of (global) added value. This is – under the given social conditions – normal. It is also normal that creditors become debtors and,

vice versa, that debtors can transform themselves into creditors. What is not normal is a one-sided social and economic relationship which is reproduced by a constant flow of interest from debtors to owners of monetary assets, without the debtors in their totality being successful capitalists who can extract a profit to cover the interest from their productively invested money and use credits as 'leverage' to make more profit. Interest thus *forces* increases in the productivity of the production process and it limits the possibilities of altering the distribution relationship of the income produced between waged labour and capital. This is very similar in the relationship between the public sector and private owners of monetary assets. When the public sector has become a structural net debtor, debt service becomes its highest priority, to which all other categories of expenditure, particularly those in the social budget, are subordinated: the secondary budget determines the primary budget's room for manoeuvre.<sup>6</sup>

Figure 1: Delinking of monetary and real accumulation

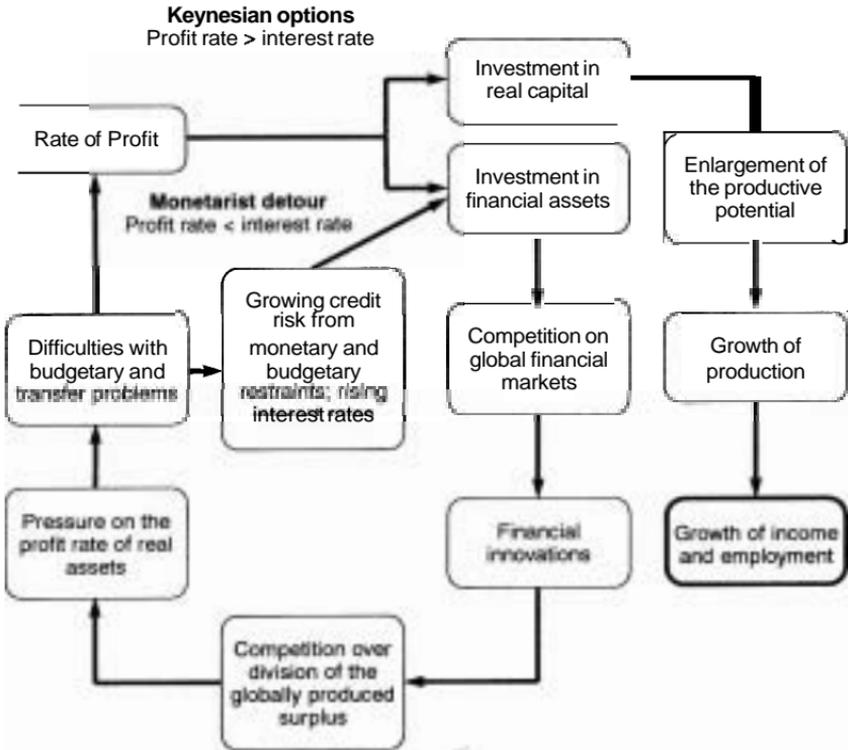


Figure 1 shows, in a highly simplified way, the consequences of the steering of profit use for real and monetary investments. In the national

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framework ('Keynesian track') real investments and correspondingly also production, income and employment are stimulated. There are, to be sure, many obstacles to overcome before monetary investments are actually converted into employment. The 'monetarist track' can, however, bring about pathological effects for the economy and for society. When debtors are not in a position to service their debts ordinarily, credit risks increase. As creditors are only moved to lend when the risk can be wiped out, the global interest rate increases by the higher risk component. Thus, financial investments become potentially even more attractive than real investments – until the 'moment of truth' when it becomes clear that in the 'competition for a share of global added value' there is too little 'dough in the tin' for all the claims to be met.

The consequences are not only precarious for debtors, but also for medium and long term economic development which is determined by real investments. This negative effect on growth rates could be counteracted by redistributing contributions from waged income to real investments. Because of the incentive to invest on financial markets instead of in the real economy, the pressure on mass income increases. The dramatic decline of investment ratios in Latin America since the seventies, which stood at over 22%, to under 17% of GNP in the eighties, the 'lost decade', was accompanied in any case by the transition from high positive growth rates of per capita income to negative growth rates. An important reason for the reduction of the investment ratios was the debt service for external credits.

Derivative capitalism: the 'club society'

The international financial system has developed extremely rapidly over recent decades. Between 1979 and 1984 turnover in world trade increased threefold, and turnover on the currency markets eightfold (Huffs Schmid 1995). According to the Bank for International Settlements (BIS) the quantities of financial transactions on the international gold, currency and money markets exceed \$1200 billion daily (Die Zeit, 10.5.96; c.f. also Kulesa 1996: 97), whilst around \$10 billion per day would suffice for the circulation of world trade with an annual volume of \$3680 billion (based on world exports as of 1993). Financial transactions have thus very little to do with world trade any more: money functions only – if one wishes to express it quantitatively – 1 per cent as a means of circulation and 99 per cent as a means of payment.

The measure of the power of money can be ascertained by a glance at the amounts of derivative financial instruments on the international markets. In 1993 they were estimated to be over \$14,000 billion (BIS).<sup>7</sup> That is more than the sum of the social product (1993) of the USA (\$6380 billion), Japan (\$4190 billion), the Federal Republic of Germany (\$1880

billion) and Great Britain (\$940 billion). The comparison should not be laboured because flow sizes and stock sizes are being compared. Yet, if one fixes an average interest rate of 6% on derivatives, interest claims of around \$840 billion are produced. That is more than the sum of the gross domestic product of Brazil (\$409 billion) and Mexico (\$334 billion) in 1993, a comparatively good year for both countries. Of course, this relation is an exaggeration because derivatives include reciprocal claims within the global banking system and interest on them is less important than fees on transactions. But when claims or obligations on the derivatives market cannot be settled, for example, because unexpected movements of interest occur, and consequently movements of exchange rates of stocks and shares, the basis of derivatives, contracts can collapse and cause the house of cards of derivatives to tumble. Originally developed as an innovation to secure against risk ('hedge'), derivatives themselves have become increasingly an object for **speculation**:<sup>8</sup> the 'stock market game of the bankocrats' (Marx, MEW 23: 783).

The financial innovations exist above all in the fact that the elements of financial contracts – the agreed interest, the period of validity, the currency, the modality of repayment, the form of documentation – are combined in a new way ('unbundling' and 'repackaging'). Financial derivatives are 'instruments of the financial market (for instance swaps, financial futures, options) drawn from another financial product (underlying value); they can be utilised for purposes of securing existing positions, arbitrage or speculation. The value or price of the derivative instrument is influenced by the value or price of the financial product which forms its basis' (Deutsche Bundesbank, Monthly Reports, October 1993: 63). Financial futures are fixed-term financial contracts, the basis of which is formed by **interest-bearing** stocks and shares, that is to say interest rates (interest futures) or foreign currencies (currency futures). Options are the right, but not the obligation, to buy (call option) or sell (put option) at a previously agreed price a certain amount of underlying value either at a specific point in time (European option) or within a certain period of time (American option). Underlying values can be shares (share options), share indices (index options), fixed interest stocks and shares (interest options), foreign currencies (foreign currency options), financial swaps (swaptions) and in turn options (options on options). Options can serve to secure risk-bearing financial operations and also function as an instrument of speculation – as can futures. They are traded either in a form standardised by the stock market, or 'tailor made' outside the stock market, 'over the counter' (OTC) (Deutsche Bundesbank, Monthly Reports, October 1993: 63). According to the BIS, over half of the total sum of derivatives is dealt outside the stock exchange (The *Economist*, 10 February 1996: Survey 9). The amount of interest based futures, options and swaps at the end of 1993, by far the most

popular derivative financial instruments, stood at around \$14000 billion, having stood at only \$1300 billion at the end of 1987.

**Table I:** The development of selected derivative financial instruments world wide (nominal amounts in \$ billions, final totals)

<i>Position</i>	<i>1987</i>	<i>1993</i>
<i>Forward and futures-type instruments</i>		
<i>Dealt on stock exchange</i>		
Interest futures	4878	4960
Currency futures	14	30
Share index futures	18	119
<i>Dealt over the counter</i>		
Interest swaps	683	6177
Currency swaps	184	900
<i>Options type instruments</i>		
<i>Dealt on stock exchange</i>		
Interest options	122	2632
Currency options	59	81
Options on share indices	26	286
Caps, Collars, Floors, Swaptions	561 <sup>a</sup>	635 <sup>b</sup>

a) 1990; b) 1992

(Source: Deutsche Bundesbank, *Monthly Reports*, November 1994: 43.)

In the Federal Republic of Germany alone, the amount of financial instruments not evidenced in the overall trade or financial balance increased almost tenfold from the end of 1986 to September 1994, from DM 875 billion to DM 8267 billion (Deutsche Bundesbank, *Monthly reports*, April 1995). Since the end of 1990 the trade in financial derivatives (not shown in overall balances) has grown by an average of 53% annually as opposed to an increase of 8% in the total volume of trade. A large part of these investments does not show up in overall balances because the banks no longer act as intermediaries between lender and borrower, saver and investor (financial disintermediation). They still broker the credit relationship, but they are neither the debtor of the savings depositor nor the creditor of the borrower, thus they pay no investment interest nor do they acquire any credit interest, but earn on the brokering fees or, in so far as they do take on a risk (exchange rate or interest risk), on the premiums due. The risks on their side can be secured by options and futures deals. This is the source of the enormous magnitude of the financial derivatives markets; they represent a diversification of the simple credit relationship – between

someone who disposes over liquidity and another who requires free liquidity.

The driving wheels of the process of severing of money and market from social and political ties, the bifurcation of the financial from the 'real economic' sphere, are localised in nodal points of the global financial network, where political control is weak and social ties can be neglected offshore: in tranquil Luxembourg, on the Cayman Islands, the **Bermudas** etc. On the Cayman Islands (20,000 inhabitants) for instance, German banks and companies have applied more direct investment than on the whole of the African continent (660 million inhabitants). A new geography of the world system is emerging in which maps neither of natural features nor of political boundaries can assist orientation, but statistics of global financial transfer can. A 'nodalisation' of the global economic space is occurring.

The exploitation of higher capital returns abroad, the striving towards risk limitation, towards the avoidance of limitation through regulation or taxes have contributed to the internationalisation and then globalisation of financial markets and – this is the inevitable concomitant – to the fiscal crisis of nation states, although nation states themselves have done everything to support this type of globalisation through deregulation. The actors in this financial network are the personified expression of what Karl Polanyi terms 'disembedding': **they have taken** their leave from the community of the tax citizens, and as a rule they do not need the solidarity benefits of a welfare state as they can buy these privately. They inhabit shielded ghettos, they have removed themselves from the community and, instead consort in clubs with their own likes. As Edward Luttwak (1994), John Kenneth Galbraith (1992), Robert Reich (1993) establish for the USA, Jens Petersen (1995: 128ff) for Italy, they have as owners of monetary assets a **large interest** in stable money – for the real value of their assets depends on this – but hardly no interest in state sponsored moves to secure infrastructure and social stability through state expenditure. On the contrary, they oppose this vociferously as (welfare) state activity either endangers the **stability** of monetary value, when debts are made, or causes the tax burden on the owner of monetary assets to increase. Inflation could not only cause a reduction in the external value of their monetary assets, but **could** also lead to exchange rate losses if the central bank reacts with an increase in its interest rate. Thus, positive job market figures in the USA are received as negative news on the stock market. Owners of monetary assets can escape devaluation of money and tax burdens by 'fleeing' to tax oases (**i.e.** by taking advantage of their 'exit option'). Correspondingly, public debts and flight from taxes correlate to a large extent. Jens Petersen describes this tendency for Italy (Petersen 1995: 123ff). With debts of around 120% of GDP the debt service swallows 20% of the state budget

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and 40% of ordinary tax revenue. Thus, the simultaneity of a growth in private wealth and a corresponding increase in public poverty identified by J. K. Galbraith in the USA of the fifties is repeating itself in a new form. Citizens who hold government bonds (BOT: Buoni ordinari del Tesoro), termed 'BOT-people', have come to form a broad rentier class, which *firstly* is able to mobilise considerable political power in society (no government dares touch income from capital assets), and which *secondly* is a burden to all those who do not own monetary assets. This includes the poorer south of Italy, but it is mainly those who draw income from gainful employment who bear the burden. Here it becomes clear that monetary society<sup>9</sup> weighs heavily upon labour society.

When socialisation is created by money and no longer through labour and communicative dealing, society as a cohesive community tendentially breaks up into '*clubby communities*' and exclusive ghettos. The avoidance of participation in the social costs of the nation is then no longer an asocial or even criminal act, but a normal reaction. Thus, moral scruples or even feelings of guilt are not to be expected with regard to tax avoidance," and even in the public sphere crimes of this kind are viewed only slightly less critically than a small act of shoplifting which involves paltry amounts and not the magnificence of big money. In the 'club society' it is not disreputable to fleece the state budget from those who do not belong to the club.

Yet there does remain a high risk. Derivatives, despite all their detachedness from the real sphere, pose a hardly calculable demand on real flows of income. They are for the large part a matter of zero sum games. They have therefore no (or only a limited) effect on the real world of the economy. But problems arise as soon as open positions cannot be closed on schedule. Then a chain reaction is possible and the sum of interest, fee and premium claims, fictional under 'normal conditions', turns out in '*non-normal*' times to be unpleasantly real. It can result in bankruptcy and in losses which can have a detrimental effect on the real world of the economy with production plants and jobs.

Why these risky innovations? Through them the flexibility of the lender and borrower can be increased. Each receives the form of the instrument which corresponds most closely to his or her respective interests. Illiquid capital becomes liquid and flexibly tradable. In this way, permanent production relationships are 'liquidated'. Thus, the 'bifurcation' of monetary and real accumulation expresses itself not only quantitatively as the ascendance of financial contracts over real economic turnover, but also as the qualitative effect of a subordination of real economic and social relations to the financial system. So the global financial system does actually assert itself everywhere as a 'ubiquitous money fetish', exercising its power primarily over those actors (individuals, countries, regions) who are debtors. The financially innovative liquidation of asset holdings *facili-*

tates the flexibilisation at the 'locations' which is demanded within the scope of neoliberal deregulation. It is therefore possible to play off production locations against one another on a world-wide scale. The transfer of capital is no longer an empty threat, but a real possibility supported by the new financial instruments.

*Financial innovation and the old song of debt*

Deregulation and globalisation were the preconditions for the explosive growth of the new financial instruments in recent decades. However, the accumulation of financial assets by the owners of monetary assets on the one hand is of equal importance to the piling up of debts on the other. Through this, social relations in the 'world society' have changed radically in the last two decades. Monetary assets are held mainly in hard currencies (in \$, DM, Yen) and it is usual that debt service is settled in these currencies. Similarly, when local investment projects or consumer expenses are financed by external loans the debt service demonstrates relentlessly that local debtors have to follow the rules of the global arena. It makes a difference if people communicate by language or trade on comprehensible commodity markets or if they are linked by monetary claims and monetary obligations on the global market.

The structure of the world society by means of creditor-debtor relations is not particularly spectacular as long as debtors are in the position to service their debts. However, this will only be possible for as long as – other circumstances notwithstanding – the obligations of debt service do not exceed the achievable profitability in the real economy (in the production process). Consequently, debts force a profitability appropriate to interest obligations and thus the corresponding acquisitive economic rational structuring of the production process, i.e. the take-over and completion of 'capital accounting' (Weber 1976: 48ff), the adequate choice of equipment and a distribution between wages and profit which enables the interest to be derived. Debt service in the economy thus forces *economic rationalisation*. Monetary indebtedness forces capitalist economising, and space and time are subordinated to monetary rationality. This was also Keynes's topic, the long history of which is worth repeating with necessary brevity in order to understand better the dynamic of debts.

Aristotle was one of the first to advance a critique of 'acquisitive economics'. Money is the 'element and limit of barter trade. And unlimited, this is thus also wealth . . . All profiteers. . . wish to increase their money limitlessly . . . Because this desire extends into unlimitlessness, they also desire unlimited possibilities to achieve this' (Aristotle 1989: pp. 95-96). According to Aristotle, the reason for this ethos 'is the industrious endeavouring for life, but not for the good life'. Here, as Max Weber interprets, 'ethical and economic rationalisation' stand opposed to

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each other (Weber 1976: 352). Interest on lent money which cannot be used by the debtor as capital for the production of added value is in fact a foreign body socially and economically, which is subsequently outlawed, even declared as evil, in all major world religions. Interest functions like a tax on the production process which for this reason must create a surplus. This coercion by the economic system, the 'hard budgetary restriction', causes the subordination of social, political and natural relations to the economic principle.

This coercion as such is not new. It caused defensive moves in the major religions and philosophical systems: the Islamic or canonical prohibition of interest. At the second **Lateran** Council of 1139 usurers, people who drew interest, were threatened with severe worldly and divine punishments: they were to be denied confession and even a Christian burial. Later this draconian rule was modified; lenders did not go to hell. 'Purgatory' was invented for them, in which they were to roast for a certain period of time to cleanse themselves of the sin of drawing interest, in order to gain unconditional entry to heaven afterwards (Le Goff 1988). The pressure to which debtors are exposed can be so tremendous that their assets are eaten away and their livelihoods destroyed. The social consequences of such heavy debts are considerable. In earlier times debtors' bondage and debtors' prison threatened, today it is other, rationalised forms of dependence and limitation of one's room to manoeuvre. For this reason, throughout history there has always been the bankruptcy of debtors or a debts amnesty when debts got out of hand, such as under Solon in 594 BC.<sup>11</sup> As a rule, a new cycle of debt could begin after a debts amnesty, until the next regulated – or critical removal of debts (c.f. Löschner 1983). Bankruptcy or debts amnesty are so to speak the 'safety valve' when the regulating valve of the prohibition of interest fails and what is in principle the unlimited augmentation of money begins, be it unregulated or deregulated.

The regulating valve of the prohibition of interest was fixed at a very low level of the regulating variable, at interest = 0, because the real possibilities for augmentation were very narrow in view of the limited productivity of societies which operated with biotic energy. Opposed to this is the experience that interest, when it was charged, was to an extent exorbitantly high because no market had yet developed which was able to fix a suitable price for lent money.<sup>12</sup> Both at an interest of zero and at an extremely high interest rate, capitalist acquisitive effort soon reached the limits of physical effectiveness and economic profitability. On the other hand, many cultures viewed the accumulation of wealth without a doubt positively, but not for turning the wealth into productive capital. Thus, there are many cultures in which wealth is 'socialised' either through destruction, collective consumption or redistribution." It was only after capitalist relations had taken form, and when production could be

increased considerably, above all in the course of the industrial revolution and due to the use of fossil fuels, that it became possible to raise the level of the regulating variable and not only to allow positive interest, but to use it as a positive stimulus to force a surplus of real production. Thus, in principle it must be possible to organise the production process as a process of **utilising** capital so that interest can be paid by debtors without eating away their capital assets. This possibility became reality with the increases in the forces of production which in the course of industrialisation were no longer linked to limited human resources. The increases in productivity reported annually now enable those interest payments which, in a time when increases in productivity were almost out of the question, had a socially undermining effect.

Money, fossil fuels and capitalist production relations form a triad (c.f. **Altvater** 1994) which is supposed to have changed the world as radically as never before in human history. It is thus explicable that in the Catholic Church the prohibition of interest has been 'practically annulled despite its eternal validity laid down in the Bible and by papal decrees' (Weber 1976: 340). In Islam too it is valid literally to the present day, only it has been lifted de facto in that, instead of interest, fees and profits are paid on one's participation in a business, and these function economically like interest. Yet the 'regulating valve', has merely been given a higher value and not switched off. If the level of the regulating variable is exceeded, as in capitalist prehistory, the safety valves of bankruptcy and debts amnesty can reduce excessive pressure on the economic system.

Money is always a pecuniary claim which has a corresponding pecuniary obligation. With the growth of financial assets debts also increase and with them the compulsion to produce a surplus in order to be able to service monetary assets. We have seen that derivative financial instruments have increased in the nineties by a yearly average of more than 50%. The underlying values, from which derivatives are drawn, have of course not increased at this rate. A considerable volume of claims has swollen up, the servicing of which could cause problems. Because of money's self-referentiality in the form of the intertemporal interest rate, the Islamic or Christian regulating valve, guided by the debtors' external ability to pay, has in principle been switched off. The increase in the ability to pay is caused by the effect of the hard budgetary restriction of money. The dynamic of money demands a permanent dynamisation of the real economy and society. Admittedly, the possibilities for a growth of the surplus are energetic and material and thus limited by economic (an **over**-proportional increase in the marginal costs of the progress of productivity) and social (resistance to the 'violence of money' grows) factors; no financial innovation can change them. Then the mounting pressure on the monetary system from bankruptcy, inflation and/or debt amnesty –

expresses itself. The interest claims of the owners of monetary assets must therefore be viewed in relation to increases in productivity and to the profit rate on productive capital.

There are no reliable data on the size of financial assets, disregarding holdings of derivatives, direct and portfolio investments or loans, especially if they are to provide information about global quantities. The sparseness of the data is for its part an expression of the 'disembedding' of global owners of monetary assets (these are above all banks and other financial institutions) from (world) societal bookkeeping. The advantage of free banking zones also lies in the fact that the activities there are not monitored and commonly enough are not even quantified so that our knowledge of them – the basis of rational taxation, political control and social participation – is limited. This is different in the case of public and private debts. These are known to a large extent. In order to gain an overview, let us calculate roughly global debts.

Firstly we will look at the Third World's mountain of debts which towers above everything. Despite a transfer of debt service, the mountain increased constantly from \$658 billion in 1980 to around \$1770 billion at the end of 1993 (World Debt Tables 1993-94). The group of seven industrialised nations had at the end of 1994 net external debts, i.e. when one totals up credits and liabilities towards other countries, of \$278 billion (at the end of 1993 it was \$177 billion). The low value is achieved as the net external debts of the USA (\$781 billion) or Canada (\$214 billion) are balanced by the high net credits of Japan (\$688 billion) or the FRG (\$213 billion). The USA has therefore the highest external debts of any country on earth.<sup>14</sup> Table 2 summarises the most important data on the external holdings and liabilities<sup>15</sup> of the industrial countries.

The eastern European countries also have serious debts. The external net debts of central and eastern Europe increased from something over \$200 billion in 1989 to \$290 billion at the end of 1995 (IMF 1996: 173). Thus, the world has without exception net debts. The claims and debts within the global financial system should add up to +/- zero. But the external net debts in the world economy add up to a considerable magnitude even when one can realistically assume that the debts of the Third World and of Eastern Europe are contained in the holdings of the industrial countries. However, a net amount remains which ought not to exist according to the rules of double bookkeeping. An explanation for the mismatch is not easy to find. The most plausible is the assumption that the net debts of the world correspond to private assets which are not measured and thus not contained in the statistics.

**Table 2:** External credits and external obligations of selected OECD countries (in \$ billion, situation at the end of each year)

<b>Country</b>	<b>Status</b>	<b>1981</b>	<b>1986</b>	<b>1989</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>
USA	Assets	899	1308	1752	1913	2268	2378
	Liabilities	630	1391	2145	2525	2926	3159
	Balance	269	-83	-393	-612	-658	-781
Japan	Assets	208	726	1770	2034	2180	2423
	Liabilities	198	547	1478	1522	1570	1735
	Balance	10	179	292	512	610	688
FRG	Assets	244	495	856	1179	1268	1433
	Liabilities	221	405	594	887	1047	1230
	Balance	23	90	62	292	221	203
France	Assets	169	255	472	805	851	979
	Liabilities	141	254	497	885	890	1067
	Balance	28	1	-25	-80	-39	-88
Italy	Assets	96	156	269	371	416	478
	Liabilities	111	192	342	510	525	587
	Balance	-15	-36	-73	-139	-109	-109
GB	Assets	623	1058	1534	1797	2033	2191
	Liabilities	568	916	1446	1761	1998	2168
	Balance	55	142	88	36	35	23
Canada	Assets	69	100	162	181	207	241
	Liabilities	179	234	347	403	444	455
	Balance	-110	-134	-185	-222	-237	-214
G7 total	Assets	2308	4098	6815	8280	9223	10123
	Liabilities	2048	3939	6849	8493	9400	10401
	Balance	260	159	-34	-213	-177	-278
G7 and 8 other	Assets	2732	4856	8038	—	—	—
	Liabilities	2563	4836	8324	—	—	—
OECD countries	Balance	169	20	-286	—	—	—

(Source: OECD 1993b, 1995b (Economic Outlook, December 1993, 1995)).

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State debts, or the tradition of public poverty and private wealth

The transition to a capitalism of derivatives and global debts is tantamount to the public sector being taken into the service of the monetary system, which can be seen clearly in the state debts of almost every country. The private economic **system** requires political assistance. **When** financial difficulties become apparent, the political institutions of Bretton Woods, the World Bank and the International Monetary Fund make their presence felt. The political and economic conditionality imposed by them (but also by the EU on its members) in the form of structural adjustment programmes is like a world formula which sovereignly disregards distinctions in the various countries and cultures. Globalisation is in fact financial globalisation and it is felt so painfully because the logic of money is asserted without regard for social, political, cultural relations, indeed with a disregard for human dignity itself. Monetary sovereignty lies now with the global institutions. National sovereignty outside the monetary sphere is incomplete as territorial and political borders count for little in the competition between currencies. The privatisation of money through deregulation and financial innovations thus corresponds to a socialisation of debts. Public institutions therefore do not only lose sovereignty in guiding economic policy, but on top of that they are obliged to act as guarantors for debt service. Public interest payments are becoming more and more the basis of the value of private monetary assets because the public sector is required should private debtors not be capable of coming up with interest and amortisations. Either a 'normal' case-of guarantee occurs or the threat of a financial crash requires public intervention in order to avoid negative side effects. It thus occurs that the proportion of public debts in the total external debt in Argentina grew from 60.7% to 96.6% between 1980 and 1989, in Mexico the increase during the same period was from 82.2% to 95.0%, in Chile from 50.3% to 77.5% and in Brazil from 10.6% to 94.4% (Fundap 1993: 25). In the case of public debts it is not a matter of a crowding out bemoaned by neoliberals in the 1970s. On the contrary: from the point of view of bookkeeping, public debts are none other than the flip side of private financial assets. They have taken the place of private debtors, i.e. of companies, who **run up** too few debts because **they** invest too little. Debts thus become socialised in order to protect private monetary assets. In other words: because the profit rate on real accumulated capital is too low, private capitalists invest financially in order to secure interest. Finally, in the course of the bifurcation of the financial sector from real accumulation, these are enlarged to a considerable extent from public finances and transferred to the private sector.

Monetary assets are thus secured by transferring liabilities from the regulation of market forces into sovereign domains. Interest, according to Keynes, is like a tax on production. It now becomes apparent that interest

does actually become secured and transferred by the removal of taxes if the profitability of the production process is insufficient with regard to interest claims. The state manages this task by means of a kind of socialisation of losses. This is extraordinarily costly both socially and economically because in many state budgets payment of debt service (in the secondary budget) limits enormously room for manoeuvre in policy formation (in the primary budget). **As** a result of publicly guaranteed liabilities, it is not only the case that social expenditure is under pressure, but – a positive feedback effect – monetary assets increase and along with them interest claims. If monetary assets are not put into productive investments, and if they do not have to expose themselves to the risk of making a loss, the pressure on public budgets in derivative capitalism will not decrease.

Thus, state debts are obviously a functional necessity in deregulated derivative capitalism. Servicing them does certainly cause problems to arise as public debt service cannot be financed by tax on monetary assets, because asset holders under conditions of free convertibility and financial deregulation have the opportunity to transfer their assets to other 'more friendly' places. In other words, they have the power to blackmail democratically elected governments by capital flight. Therefore governments today compete with one another for who will place comparatively low tax burdens on asset holders; for instance, the German Government in late 1996 introduced for this very reason an extreme reduction in taxes on monetary assets and wealth. Consequently, the only remaining strategy is to tap into the income of non-owners of monetary assets, welfare state transfer payments and privatisation of public property. The globalisation of financial markets and the formation of the club society of owners of monetary assets thus leads to the crisis of the welfare state which is erupting in the nineties in all countries, including those with a long welfare state traditions such as Scandinavia and Germany. **A** dismantling of the welfare state is only possible if a surplus is obtained in the 'primary budget' of state expenditure financed by ordinary (tax) income which can be used to finance the 'secondary budget', i.e. for the debt service. This is of course particularly difficult in times of crisis when growth is slow and as a consequence the relationship between real interest and real growth is particularly unfavourable. Other possibilities of reducing state debts are debt for equity swaps and the privatisation of public property. Both methods are extremely risky and as a rule not very effective as the expected future returns on public institutions are fixed low whilst interest is high, especially in times of crisis. On top of this, it is well known that the 'family silver' can only be flogged once. The last method of debt reduction worth mentioning is the devaluation of monetary assets. If the creditors are foreigners and if the debts the state owes them are in its own currency, then a currency devaluation can provide relief. The USA used this possibility

and has halved the external value of the US dollar since the mid-eighties and has thus devalued its external debts (for instance to Japanese investors). Internal debts could be reduced by inflation if both an outflow of capital and interest inflation can be avoided. The *ultima ratio* of a policy which follows this line would be a currency reform. Yet, in normal times, without a change of the political regime, this can only be done if inflation has taken on the scale of hyperinflation as it had in Argentina and Brazil at the end of the eighties and beginning of the nineties.

***The competition between currencies: the battle for global added value.***

It is precisely the neoliberal deregulation discourse which hides state complicity in this redistribution in favour of the owners of monetary assets. In national societies the regressive effects of 'derivative capitalism' are equally evident as on the global level. The poor have become poorer, the rich richer (cf. statistics on this in UNDP 1994). This mechanism has led to a differentiation within and between countries and regions in countries, also within the so-called Third World in which there have indeed been winners alongside the losers of the 'lost decade' of the eighties.

Keynes' remarks about the 'slips between the cup and the lip' (Keynes 1936: 173) would be supplemented today by the easy evasive possibilities open to liquid monetary capital across borders which reduce the stimulating effect on investment activity, employment and incomes and thus have a negative effect on the ability of public institutions to service their debts 'ordinarily'. It is also precisely globalisation which breaks up the traditional connection between interest rate and profit rate, between the monetary sphere and the real economic sphere. The 'stimulating effect' of money does not lead to more employment and income, if the obstacles cited by Keynes have been removed at all, but to monetary globalisation. This has been indicated schematically in Figure 1. Globalisation is not merely a transnational extension of the nation state's relationship between the monetary and the real sphere, as it was analysed by Keynes. The price of money and the hard budgetary restriction no longer force the *production* of a growing production surplus (and thus of added value); one gains the impression that more real wealth and real income can be 'won' from speculation with financial means. Modern capitalism thus appears to be a kind of perpetual motion.

Interest claims direct themselves on global markets, particularly when official institutions are involved, at the *production surplus which has already been produced*. 'Nation states compete to draw a part of the added value produced world-wide onto their own territory' (Holloway 1993: 23). It is much less nation states which enter into competition with one another, rather the owners of monetary assets (banks, insurance and pension funds, financial service institutions) who take monetary hold of the added value

produced in the global (currency) area. However, nation states are imperative for two reasons. To this extent it is justified to talk of states as subjects in this battle of redistribution.

*Firstly*, private monetary assets must be managed by public institutions because private debtors – companies which produce profits from productive investments and do not themselves belong to the class of owners of monetary assets – do not produce a sufficient production surplus to satisfy interest claims. Thus, public debts are the flip side of insufficient real investment (i.e. investments which do not go into monetary investments), the symptom of a crisis of over-accumulation. Public debts are a response to this. The price is high: it takes the form of the fiscal crisis of states, which has developed into the crisis of social regulatory systems, and this has happened on a world-wide scale. On the other hand, if state expenditure is reduced through cutting interest payment, this will endanger internal and external monetary value. Therefore states must *secondly* ensure that the currency in which monetary assets, and thus the claims on parts of the global added value are denominated, is and remains valuable, its value is increased as much as possible and the owners of monetary assets are presented with an increase, even if they have not produced a real economic profit. Thus, the securing of monetary stability becomes the primary task of the state. *The monetary competition between private owners of monetary assets thus transforms itself into the competition between the currencies of the nation states (or economic blocs).*<sup>16</sup> Because of this, competition on the world market gains a political dimension. At the same time new possibilities of capital investment for the owners of monetary assets open up in the competition between currencies; namely by speculating they can exploit expected changes in exchange rates and once again tap into state budgets, for it is the public sector which bears the losses of *devaluation*.<sup>17</sup> Globalisation of financial markets also means that the whole world is judged by the sharp gaze of the *rating* of financial markets and those units which are weighed and found to be too light not only arouse interest, but are also plunged into social misfortune, a political crisis and economic difficulties as a consequence of having no alternative other than to be dependent on the goodwill of 'the markets'.

In order to ensure as large a possible portion of added value in the context of global competition, the innovative financial instruments described above were developed. In a national context, money stimulates, as Keynes assumed, real economic activity under certain conditions. In the global context, however, it stimulates first of all financial innovations, and these equally on the side of the creditor (owner of monetary assets) as on the side of the debtor. Financial innovations are the expression of attempts to tap into parts of global added value. They do not necessarily function here as that Keynesian 'drink' which stimulates the system to activity and

performance. It is more a matter of levers by which the redistribution process of global added value is influenced. Consequently, the financial innovations are primarily jokers in a global zero sum game. A few become richer and very many poorer.

*The Mexican crisis: the first financial crisis of the 21st century*

In the competition between 174 currencies on the world market, fewer than five currencies can be evaluated as 'strong'.<sup>1</sup> Other currencies demonstrate either a limited convertibility or they can 'borrow' strength by connecting the exchange rate of the national currency to a strong currency. Of course, this does not only happen when the currency is made attractive by high real interest; in Latin America the interest differential towards treasury bonds from the USA (T-bills) rose from 900 basic points to 1750 from 1994 to 1995 (Banamex-Accival, Monthly Publication, No. 843, February 1996: 50ff.).

The attractiveness of a country or region is reflected in the competition between currencies; it is now hardly a result of the initial allocation of production factors or of the political geographical position unless these are reflected in the strength of the currency. Consequently, a country like Mexico became a popular land for investment in the nineties (rich oil country; NAFTA membership; apparently successful neoliberal **stabilisation** under President Salinas) until capital returns dropped comparatively and the short term investments of the internationally operating capital were hurriedly withdrawn. Internal and external reasons were decisive in this. The assassination of the presidential candidate Colosio in April 1994, the assassination of Massieu, secretary general of the PRI, in September of the same year and above all the Chiapas revolts destabilised capital, and on top of that the USA increased its interest rate. Thus, the state promissory notes CETES, denominated in pesos, lost attractiveness against the Tesobonos which was an unmistakable sign of an impending peso crisis. This then erupted as a 'Christmas present' in the first two weeks of December 1994. In the course of just four weeks in this 'black' December the peso lost 40% of its value; the official devaluation followed on 20 December 1994 (IMF 1995). Mexico's real values were also worth only 40% in the course of these December weeks, at least when they are measured in world money; and which other binding measure should exist in the international competition between currencies? Money really is the 'true common nature of society' and proves this brutal fact by devaluing the 'real common nature of society'. In 1992, ten years after the outbreak of the debt crisis as a consequence of Mexico's inability to pay, the Third World's successful mastering of its debt crisis was still being celebrated. So for the second time in ten years Mexico once again had to experience an increase in its external debts, now from \$128.8 billion to \$153.0 billion. The amount

remained de facto constant in 1995 but only because a 'stabilisation fund' of almost \$18 billion from the IMF had neutralised parts of the external debt. The price for this is a considerable increase in repayments from 1998. Then Mexico must repay \$3.1 billion to the IMF and \$3.6 billion to the USA (in 1999: \$4.3 and \$4.4 billion respectively). Whether this will be successful due to the economic crisis is by no means guaranteed (Banamex-Accival, Monthly Publication, No. 842, January 1996).

### Conclusion: Tributes to the Ubiquitous Money Fetish

The severing of monetary relations from society is on the one hand the framework within which the transition to neoliberally-inspired political concepts occurs. They give the impression that there are no alternatives to the structural adaptation programmes of the IMF or to 'sequencing' models, to the comprehensive privatisation of public property and to deregulation of prices in the transformation to a market economy in former socialist societies. Neoliberalism is the fitting economic theory at the 'end of history' in the 'new world order', in which alternative visions of the future and cultural plurality are placed under the dictate of competitiveness and culturally neutral acquisitive economic behaviour. However, this kind of liquidation of real relations also results in deindustrialisation, regressive redistribution, destruction of social consensus and the neglect of ecological restrictions. The way financial globalisation functions is an attack on social justice and individual dignity. Even economically strong nations cannot escape this 'material restraint', even if the logic of the material restraint appears to be asymmetrical.

Yet for this extremely high price, one cannot even expect higher economic efficiency from the promises of the neoliberal theorists and politicians. In the seventies they hoped that the lifting of controls would calm down the currency front; but instead the volatility of exchange rates and interest has tended to increase since then. The direction of movements of capital and commodities is influenced by this and the transaction costs of commodity trade and direct investments are growing. Countries compete with regard to the importance of financial transactions by means of interest and of the stability of their currencies in comparison to real economic relations. Through this economic sovereignty is undermined. Under a regime of fixed exchange rates, interest rates in the national context could be fixed to a large extent without regard for world economic conditions in order to influence growth and employment positively. This was the basic idea behind the Keynesian project of expansive employment policy. Whilst in the thirties a '*devaluation competition*' took place with disastrous consequences for world economic development, political stability and finally world peace, today a *stability competition* for real interest and exchange

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rates is taking place in the competition between currencies in order to attract capital which is extremely flexible as a result of the financial innovations. The consequences are similarly destructive. The owners of monetary assets can open their club anywhere as society no longer means anything to them. This is also a reason for the fact that they are not prepared to pay for it and enter into tax flight. The rules of monetary globalisation force a 'common nature of society'<sup>7</sup> consisting of payment and non-payment which excludes a sense of community unless it can be instrumentalised and used as a resource in the improvement of international 'competitiveness' to pay tribute to the material restraints of the 'ubiquitous money fetish'. But, because the value foundation of money occurs as a result of the labour of society, limits are laid down for the bifurcation of the monetary from the real sphere. The limits also assert themselves as currency and financial crises in capitalism on the threshold of the 21st century. Thus, representatives of international institutions require structural reforms to be tackled in order to secure the stability of money. These are mostly understood to be reforms with the purpose of redistributing resources in favour of the globalised financial system. Against this background, the remark of the director of the IMF Michel Camdessus that Mexico's financial crisis of 1994/1995 is the 'first financial crisis of the 21st century' is not without some irony.

It is not a simple task for political institutions to control financial processes, for the reasons this essay has pointed out. The sovereign power of nation states on financial markets is extremely limited and on an international or even global level there are no mechanisms of control besides the institutions of Bretton Woods - which only act to make assets (monetary wealth) secure, if necessary even by partly socialising the debt and the debt service. A way back to non-convertibility of currencies and control of capital transfers by nation states cannot be found amidst globalisation, so in order to prevent financial crises, the control of financial flows would have to be institutionalized on the international level. One instrument occasionally proposed is a tax on international capital transfers ('Tobin tax') in order to calm down speculative short term capital movements, but it is by no means clear how efficiently such a tax would even work in preventing speculation since there is no guarantee that further financial innovations by markets would not quickly neutralise a Tobin tax. 'Re-embedding' of 'disembedded' financial flows therefore would have to consist, at a minimum, in more transparency in financial relations, minimum standards of reserve requirements for financial business, and the undermining of the resort to tax havens and offshore banking through international requirements on tax payments. But even such a slight reformist programme is very difficult to realise in today's climate, as the European Union shows. So we continue to be led down a path of greater economic

and financial integration, on the one side, and on the other financial paradises like Luxemburg, London or Guernsey Island where the regulating power of even powerful central banks ends. The Left in this situation only can make clear that control of global economic processes at the end of the 20th century is a necessary element of any alternative economic policy project.

## NOTES

1. It actually has two prices: the inter-temporal price, interest, by means of which money is comparable over periods of time. It also has an 'inter-spatial' price, the exchange rate, by means of which national moneys (currencies) are comparable.
2. In a Monetary-Keynesian interpretation money is understood as a 'nothing' which is 'enthroned' by the institution of the central bank (since without the availability of this 'nothing' no-one is worth anything). The distinction between this Monetary-Keynesian analysis and **Marx's** analysis lies principally in the former's misinterpretation of the social genesis of the material form of money which is the centrepiece of **Marx's** analysis. It is because they have no account of the social roots of money, that the **Monetary-Keynesians** have to put such emphasis on the institutional genesis of money, *i.e.* the crucial **role** of the central bank.
3. For this reason, Monetary-Keynesians ascribe such central importance to the central bank. This goes as far as an idolisation of the central bank as a god-like **demurge** of money (*c.f.* for instance Riese 1995).
4. *Der Spiegel* (7/1996:98) puts it thus: 'Capital scours the surface of the globe for investment possibilities. Whoever wants to be interesting for the investors may, like Schrempf, only follow one goal: 'profit, profit, profit' and the employer who demonstrates too much social commitment is punished with a withdrawal of capital.'
5. However, according to a survey of US firms, only 13% of smaller firms (turnover under \$50 million) could use this escape route; amongst larger firms (turnover over \$250 million) it was 65% (figures from: *The Economist* 10.2.1996: survey 5).
6. This can also be seen in the convergence criteria of the Maastricht treaty, in which firstly only monetary convergence criteria are contained, and of which secondly two refer explicitly to the debts of the public sector.
7. The data are not precise and in some respects differ from each other considerably. In 1994, according to BIS, they were estimated at around \$20 billion (*The Economist*, 10.2.96: **Survey 9**). In *DieZeit* the volume at the end of 1995 was quoted at \$40.7 billion (*DieZeit*, 10.5.1996).
8. *The Economist* (10 February 1996) printed a list of losses on the derivatives market which, although incomplete, does give an impression of its volatility. The biggest losses since 1993 have been made by Showa **Schell** Sekiyu (\$1.4 billion), **Metallgesellschaft** (\$1.3 billion), Kashima Oil (\$1.5 billion), Orange County (\$1.7 billion), and Barings Bank (\$1.4 billion). It caused the bankruptcy of Barings Bank. *Der Spiegel* reports of the banking group Trinkaus & Burkhardt that dealers are 'proud whenever their group is described as Germany's biggest betting office' (*Der Spiegel* 7/1996: 94).
9. In Argentina the ironic and fitting term '**patria financeira**' has been coined: financial fatherland.
10. Ulrich Beck summarises very nicely: 'Entrepreneurs have discovered the touchstone of riches. The new magic formula is: capitalism without labour plus capitalism without taxes. . . Many entrepreneurs become virtual taxpayers ('Kapitalismus ohne **Arbeit**', in *Der Spiegel*, 20/ 1996, 13.5.1996).
11. In his portrayal of the history of the Athenian Constitution, **Aristotle** summarises Solon's achievements to the effect that the 'abolition of debtors' bondage' ranked in first place

even before the possibility of the court's recognition of interests and the introduction of the right of appeal before a people's court (Finley 1976: 30). It is no coincidence that the Lord's Prayer in German contains the line: '... **vergib** uns unsere Schuld, wie wir vergeben unseren Schuldigern...' (forgive us our trespasses as we forgive those who trespass against us), where the German word Schuld means both guilt and debt.

12. In the late Middle Ages in Europe, interest increased, despite the prohibition of interest, to considerable heights which had nothing to do with the debtor's real ability to pay, i.e. to 100% and even more. The church's ban on usurers thus lost its practical relevance and was lifted in the early 15th century. The usurer became an 'assistant to the birth' of the emerging capitalist society (Marx, MEW 23: 782ff).
13. For instance the 'Potlatch' of the Kwakiutl (on the west coast of Canada) was an opportunity 'for passing on inheritance and ceremonial wealth to oncoming generations... Enormous amounts of gifts were given out... Even aside from generosity, chiefs had an incentive to give away as much as possible...' (Kirk 1986: 599).
14. This is to be judged differently from high external debts of other countries for three reasons: firstly the USA is a large country in every way and thus can cope with high debts more easily than smaller countries. The proportion of debts in GDP of 10.4% in 1993 is considerable, however, especially when its dynamic is observed. In 1985 credits were 1.0% of the national product. Secondly the USA's debts are in their own currency, dollars. Thus, they are not subject to the problem of transfer which all countries must solve who must acquire foreign currency by means of export surpluses or capital imports (new debts) to settle their debt service, and thirdly the conditions of interest **service** are not identical on credits and liabilities. Interest on credit is higher than interest on deficits so that net debts have led to an external flow of liabilities only above a net value dependent on interest differentials (at the beginning of the nineties this was around \$400 billion). Interest on credit is higher than interest on deficit because the USA is regarded as a good debtor and thus gets by without paying extra interest ('spread'), which is sometimes fixed at a very high rate by US banks towards third world debtors.
15. External debts can be defined in three ways: firstly according to the place where the debt titles were issued, secondly according to the place of residence or company headquarters of the creditor, thirdly according to the currency in which the debt is to be repaid and serviced. The first criterion is no longer valid due to the globalisation of financial markets, the second is important but not decisive. Thus, the third criterion is of central importance. Depending on the choice of criterion, a country's external debts can vary. For instance, when the third criterion is employed, the debt titles of a country which are not denominated in its own currency form part of its external debt. This is for instance the case with the Mexican 'Tesobonos', state promissory notes indexed in dollars.
16. In the competition between currencies it is not nation states which count as political units, but currency regions. Nation states are consequently more like a territory which covers the same area as a currency region. Thus the deutschmark was more important in the course of German unification than was the flag.
17. In the pound crisis of 1994 the Bank of England lost several billion pounds sterling to international speculation, particularly to George Soros, the 'man who broke the Bank of England'.
18. From the International Organisation for Standardisation cited in Deutsche Bundesbank: Exchange Rate Statistics, Statistical Supplement to Monthly Report, 5 November 1995.

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