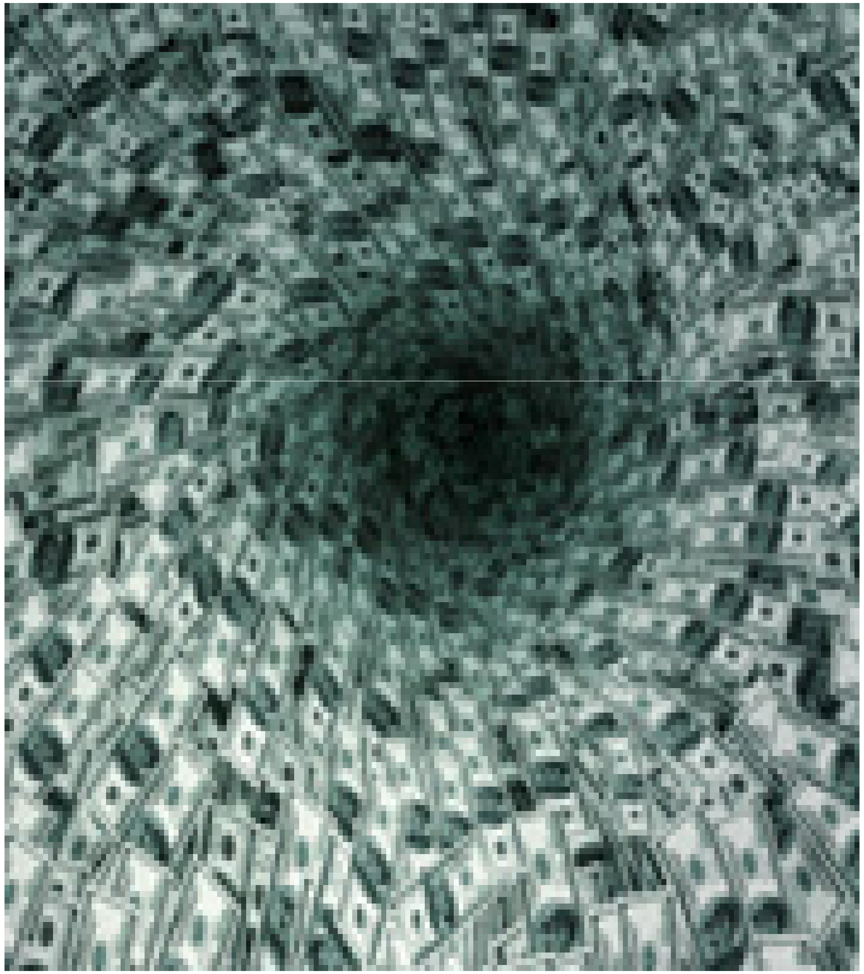
‘The economists … know more about the future than about the present’ (Marx)

Bob Jessop

Lancaster University

Outline

- Future and Present
- World Market
- Financial crises: abstract possibility, concrete reality
- Money forms and functions
- Currency pyramids
- Crises, crisis-management, crises of crisis-management
- Sovereign debt
- Conclusions



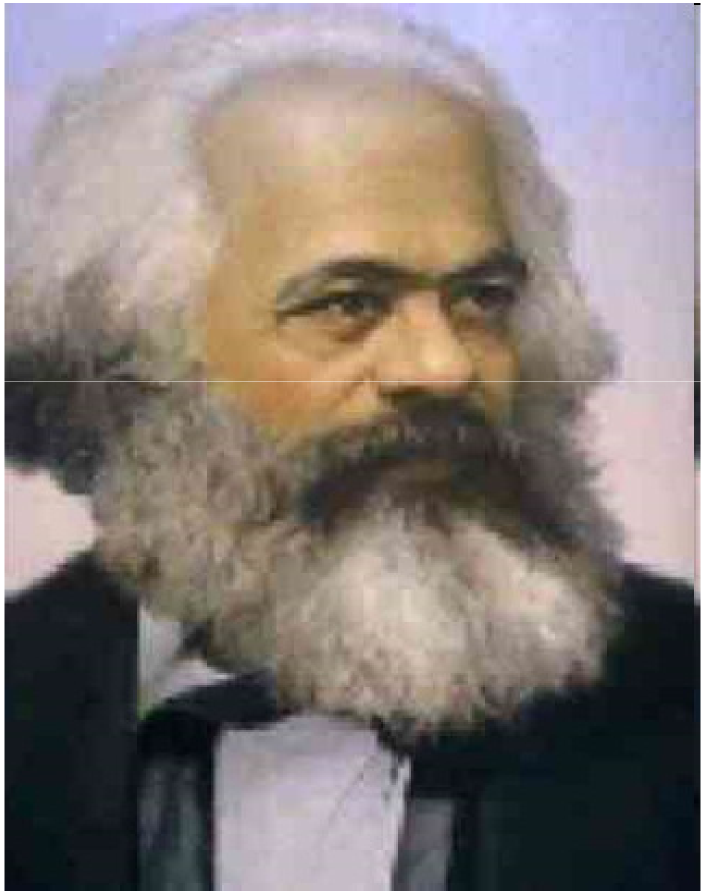
Classical Political Economy

All those laws developed in the classical works on political economy, are strictly true only on the assumption that trade is delivered from all fetters, that competition be perfectly free, not only in a single country, but upon the whole earth. These laws, which Smith, Say, and Ricardo developed, the laws under which wealth is produced and distributed - these laws grow truer, more exact, less abstract, to the extent that Free Trade occurs. Thus it can be said, that the economists - Ricardo and others - know more about society as it will be than society as it is. *They know more about the future than the present* (Marx 1847)

The Capitalist Mode of Production

- Wealth appears as immense accumulation of commodities
- Commodity form generalized to labour-power (which is a fictitious commodity but treated as if it were a commodity)
- Duality of labour-power as concrete labour and labour time
- A political economy of time (note especially the constant rebasing of *abstract time* → treadmill effects)
- Key role of money as social relation in mediating *and modifying* profit-oriented, market-mediated accumulation process
- Essential role of competition in dynamic of capitalism
- Market mechanism cannot secure all conditions of capitalist reproduction (even ignoring labour process)

The World Market - I



The most developed mode of existence of the integration of abstract labour with the value form is the world market, a place in which production is posited as a totality together with all its moments, but within which, at the same time, all contradictions come into play (*Grundrisse:* 227)

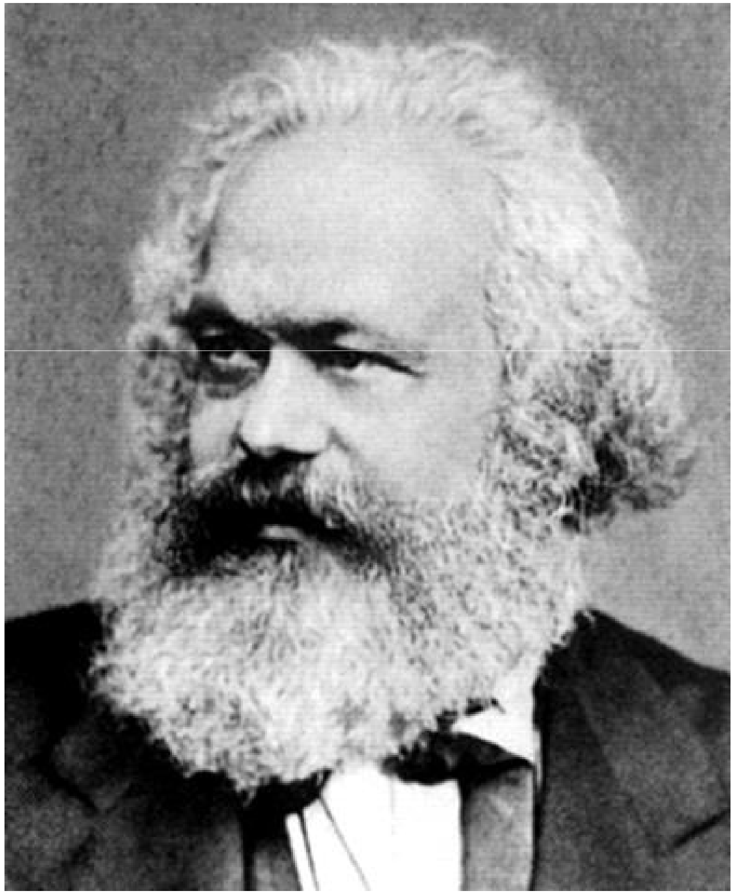
World Market - II

- World market 'is directly given in the concept of capital itself' because it constitutes the presupposition of social reproduction 'as well as its substratum' (*Gru*: 163, 228)
- Capitalist production is unthinkable without foreign trade (*Capital* 1978: 456).
- While development of world market is promoted initially by world trade, it is radically reinforced by the rise and consolidation of big industry (*German Ideology*)
- The effective operation of the world market requires full development of the credit system and of competition on the world market (*Capital III*: VI)

A "Six Book" Approach

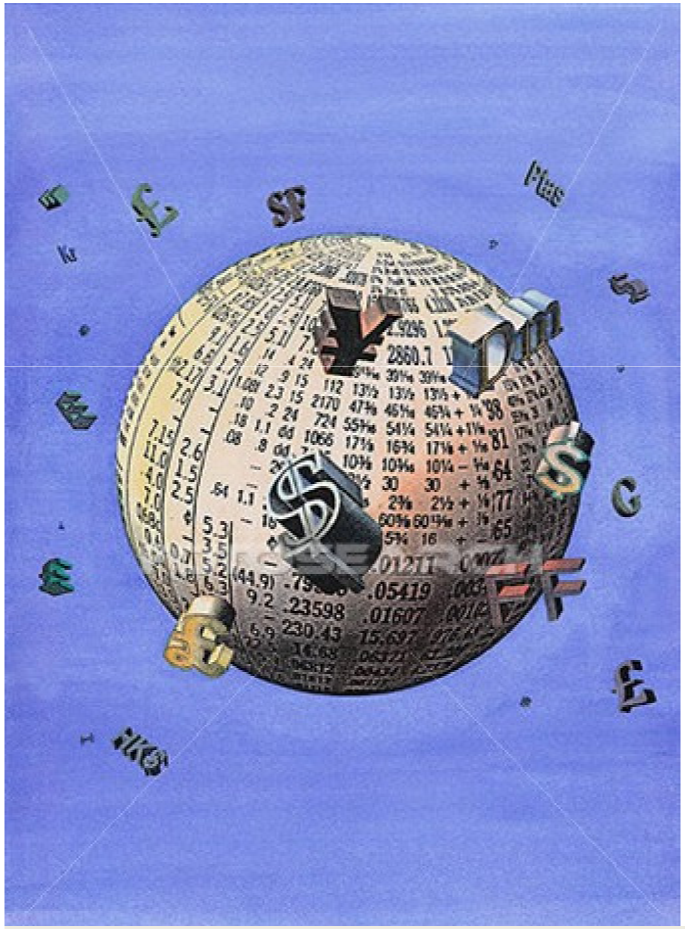
Six-Book plan for *Critique of Political Economy*

- Capital
- Landed property
- Wage-Labour
- State
- Foreign trade
- World market and crisis



A “six book” approach

- State
  - Economic and social policy
  - Fiat money, tax, fiscal crisis
  - Great, mid-, small powers
- Foreign trade
  - Geo-economics
  - Global division of labour
  - Mercantilism, imperialism
- World market and crisis
  - World money
  - Generalized contradictions
  - Crisis and crisis-management



Relevance of Missing Books

Money as a Social Relation

- Money is not a thing, it is a fetishized social relation
- Money is a commodity and a fictitious commodity
- Money is a not a single social relation but a complex, contradictory ensemble (assemblage) of social relations
- Tensions between money as money *and* money as capital
- A proper account of money, credit, and capital relation requires attention to three *interrelated* dimensions of money, credit, and capital forms:
  - the functions of money;
  - the hierarchy of money forms;
  - the tension between ‘national currency’ and world money and its reflection in contradictions of currency pyramid

Abstract Potentials, Concrete Causes

- Even before he focused on capitalist production relations, Marx showed a theory of money and credit was essential foundation for developing theoretical account of crisis
- Accumulation and crisis dynamics rest on interaction of:
  - *abstract forms of crisis* (abstract potential of crisis) in *commodity circulation* (esp of capitalist commodities)
  - and the basic *crisis-tendencies* of capitalist *production* (which may be expressed concretely in various ways)
- While *profit* fluctuations are critical to monetary crises that are directly rooted in industrial and commercial crisis, some monetary crises have own causes and impact wider economy through contagion and feedback effects

Marx on Monetary Crisis

In times of pressure, when credit contracts or dries up, money suddenly confronts commodities absolutely as the only means of payment and the true existence of value. Hence the general devaluation of commodities and the difficulty or even impossibility of transforming them into money ... millions' worth of commodities must be sacri-ficed for a few millions in money. ... As long as the social character of labour appears as the monetary existence of the commodity and hence as a thing outside actual pro-duction, monetary crises, independent of real crises or as an intensification of them, are unavoidable (*Cap III*: 649).

Engels on Monetary Crisis

The monetary crisis, defined [*Capital I*] as a particular phase of every general industrial and commercial crisis, must be clearly distinguished from the special sort of crisis, also called a monetary crisis, which may appear independently of the rest, and only affects industry and commerce by its backwash.

The pivot of these crises is to be found in money capital [or, better, forms of fictitious capital and their excessive growth, incl. capital as property rather than functioning capital – BJ], and their immediate sphere of impact is therefore banking, the stock exchange and finance (Engels, *Capital I:* 236, fn 50).

Marx on Functions of Money

Function	Definition	Crisis Dynamics
MMC	Means of circulation (exchange)	Liquidity crisis
MMV	Extrinsic measure of value (price)	Unstable price system
MH	Store of value (hoard, then capital)	Devalorization
MMP	Means of (deferred) payment, “money proper”, money as money	Excess credit, insolvency, generalized credit crisis
MMI	Money as interest-bearing capital Money as independent value, i.e., concentrated form of total capital	Contradictions of capital as function and capital as property (financialization)
WM	World money as means of international payment	Gold (bullion) shortage, oversupply of top currency

Marx on Hierarchy of Money Forms

Form	Content	Validation	Role of state	Crisis
Commodity	Physical commodity	Has, contains, embodies value	State sets unit of price formation	Limited supply of money commodity
Commercial Credit and Bank Money	Notes, bills of exchange	Convertibility into money commodity	Legal tender	Liquidity and solvency crises
Bank Credit	Fractional reserve loans	Convertible into money commodity, guaranteed by state	Banking policy Reserve ratios Guarantees notes	Liquidity and solvency crisis, excess leverage
Central Bank Credit	Lender of last resort	Convertible into bullion at CB and/or guaranteed by state	Central banking policy, may own or control CB	Excess leverage Solvency crisis Currency crisis
State Money	Fiat money Symbolic money issued by state	Taxation, coercion, legitimacy, credibility, or extractive power	Taxation, coercion, coinage, seigniorage	Sovereign debt crisis, fiscal crisis, other state crises
World Money	Bullion	Bullion or relations among states	Imperialism, interstate relations, hierarchies	Bullion shortage, Triffin dilemma

Categories for Analysis of Capital

Capital as functioning capital	Productive capital (constant and variable) plus capital of circulation (commodity and money capital) Merchant’s capital (commodity-dealing capital and money-dealing capital) has necessary functions	Division of *labour* plus division of *property* among productive capitalists Commercial credit reduces demand for capital Bank credit concentrates spare funds and savings of all classes in hands of money-dealing capitalists
Capital as property	Interest-bearing capital (titles of ownership or financial assets) Fictitious capital when viewed in terms of capitalized income streams	MMC employed neither in production or circulation - useless from viewpoint of capital, value set by capitalization of revenues relative to interest rates
Fictitious capital (narrowly defined)	Money lent as MMC directly or via banks to state (e.g., to finance wars, public expenditure, state activities)	Basis for exchange of money against ownership titles – can be multiplied many times over (leverage)

Space, Time, and World Market

The *movement of capital*, though much accelerated, still remained, however, *relatively slow*. The splitting up of the world market into separate parts, each of which was exploited by a particular nation, the exclusion of competition among themselves on the part of the nations, the clumsiness of production itself and the fact that finance was only evolving from its early stages, *greatly impeded circulation*' (Marx and Engels, *German Ideology*, 1845-6)

Financialization

- The basic principle is the transformation of future streams of (profit, dividend, or interest) income into a tradable asset like a stock or a bond.
- Financialization is a 'pattern of accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity production' (Krippner 2002)
- Reflects systemic power and importance of financial markets, financial motives, financial institutions, and financial elites in operation of economy and its governing institutions, nationally and internationally (Epstein 2001).

Varudana 2009

Finance-Dominated Accumulation

Basic Form	Primary Aspect	Secondary Aspect	Key Institutional Fix	Spatio-temporal fix
Capital	Fast, hyper-mobile money (+ derivatives) as general form	Valorization of capital as fixed asset in specific time-place	De-regulation of financial markets, state targets price stability, not jobs	Free trade without national or regional state controls
(Social) Wage Relation	Private wage plus credit as demand source	Social wage as (international) cost of production	Numerical flexibility; time flexibility; new forms of credit	To be clarified
State	Neo-liberal policy measures and Ordoliberal constitution	Flanking measures plus disciplinary measures	Free market plus "strong state" (authoritarian statism)	Intensifies uneven development at many sites and scales
Internat-ional regime	Create space of flows for all forms of capital	Compensate uneven development, adapt to rising economic powers	Washington Consensus regimes	Centre-periphery relations tied to US hegemony and its relays

Money and Derivatives

Function	Definition	Derivatives
MMC	Means of circulation (exchange)	??
MMV	Extrinsic measure of value	Commensuration (no standard of value)
MH	Store of value (hoard)	Hedging
MMP	Means of payment (reserves for deferred payment, buying capital)	Securitization, credit + interest rate swaps, etc
MMI	Money as interest-bearing capital Money as independent value, i.e., concentrated form of total capital	Securitization of capital as property, capital as function, arbitrage
WM	World money	Currency arbitrage

Significance of Derivatives

- Rise of derivatives generalizes, intensifies competition in relation to means of production, money capital, specific capitals as units of competition, and social capital
- Derivatives represent a form of *market completion* that:
  - overcomes frictions of national boundaries,
  - opens national economies to foreign competition,
  - helps to overcome clumsiness of production,
  - enhances the role of finance in promoting competition
- Completion of world market activates “all contradictions”

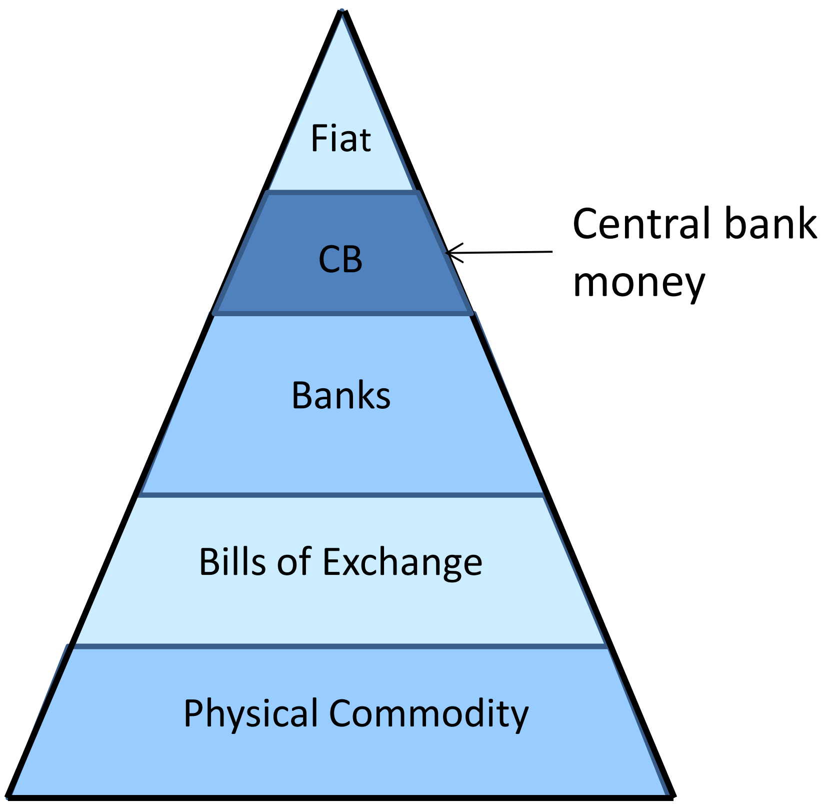
Implications

- Derivatives as forms of financial innovation integrate production on world scale and, via their role in all functions of money, contribute to market completion in real time
- To put GFC in its place, study dynamics of *production* and *finance* in world market and, in particular, include all five functions of money in their relation to both aspects
- Money as means of deferred payment (Marx and Minsky) and as world money (Marx) are especially significant
- Both must be related to hierarchy of monies (commodity money, bank money, central bank money, state money, world money) and their roles in crisis situations without world state, world money, or hegemonic world currency

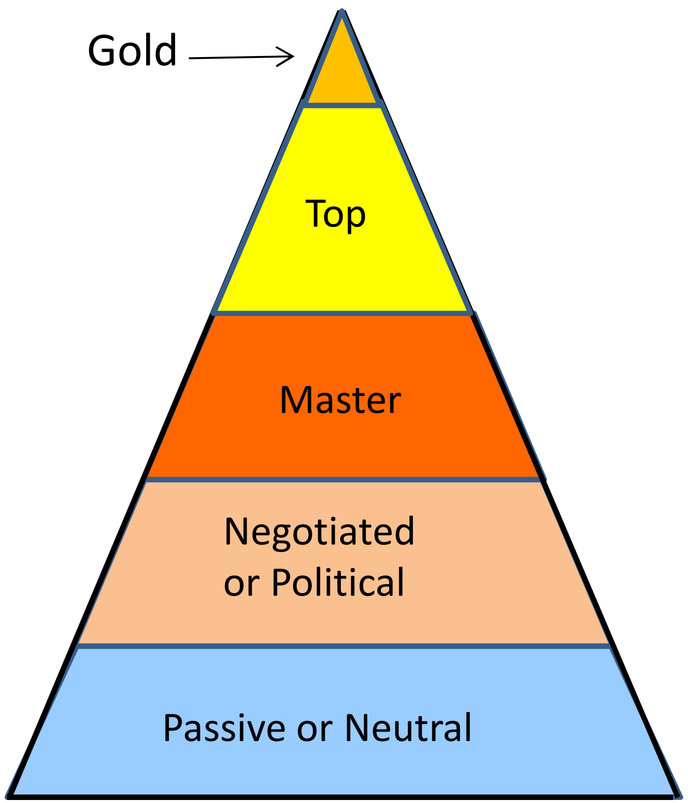
Currency Pyramid

Form	Features	Crisis-Tendencies
Top Currency	Issued in and/or sanctioned by the state that enjoys world economic leadership , i.e., the predominant state in world market	If national currency is also international reserve currency, possible tensions between short-term domestic and long-term international objectives
Master Currency	Circulates mostly in geo-political blocs, e.g., thanks to political dominance of issuing state	Loss of hegemony or domination in bloc (decline of GBP and FFR blocs in 1960s-70s; rise of yen bloc in 1980s)
Negotiated or Political Currency	Based on international regimes with strong emphasis on mutual benefits rather than coercion	Euro suffers from emerging latent incompossibility of EU economies and inherent design flaws of EMU
Passive or neutral currency	Circulates domestically, no major role in international regimes	Limited appeal, leading to adoption of other currencies (e.g. dollarization)

Credit/Debt and Currency Pyramids



A five-tiered money pyramid in [national] economic space



A five-tiered currency pyramid in international space

Significance of Currency Pyramid

- Hierarchy of money forms/functions influences world market through its articulation to currency pyramid
- US central bank and state debt became *de facto* world money when USD de-coupled from gold as money commodity. Top currency status supports economic and political power
- Crises in USD are generalized to world market, imposing asymmetric costs ("USD is our currency but your problem")
- Master currencies may provide buffer in context of world market organized along lines of blocs (e.g., GBP, FFR, Yen)
- Negotiated or political currencies vulnerable to political as well as economic crises (e.g., Eurozone crisis)

Periodization of Crises and Crises of Crisis-Management

Main period	Summary Description	Some Illustrative Features
1985-Jan 2007	"Goldilocks Economy"	'Great Moderation', 'No return to Tory Boom and Bust', 'This time is different'. Cassandras vs economic and political hubris
Feb 2007-Aug 2008	Financial Crisis Emerges	Sub-prime crisis emerges, worsens in US and UK. Credit crunch, banking crisis, liquidity crisis emerge and then spread unevenly in world market through bad loans and de-leveraging
Sept-Nov 2008	Moment of Panic	Lehman Brothers and AIG go bankrupt. Panic sets in. 'Week of visible fear'. Policy disorientation → multiple interventions.
Dec20 08- Mar 2009	'Financial normalization' as states and IFIs rescue (shadow) banks	State bailouts, quantitative easing, IFI coordination. Return to 'financial business as usual' for banks that are TBTF. Crisis becomes everyday "fact of life"
Apr 2009-Feb 2010	Crisis in Real Economy	Crisis spreads via contagion to real economy in integrated "world market" – albeit with visibly uneven effects. Rise of G2 and G20. Growing attacks on state sector and welfare
Mar 2010-July 2011	Sovereign Debt and Fiscal Crisis	Transfer of private sector debt into crisis of public sector debt. Crisis in Eurozone (evident from late 2009)intensifies with fears about the PIIGS, wider fiscal crisis, risk of second recession.
July 2011-May 2012	Eurozone Crisis and crisis of crisis-management	Centre of gravity of crisis anchored in Europe with new kinds of world market dynamics. Double dip recession, political paralysis, contagion and domino effects in Europe, US, BRICs

The North Atlantic Financial Crisis

- This crisis (more commonly, and misleadingly, called the 'global financial crisis') has a specific aetiology:
  - NAFC must be situated in world market
  - Related to variegated capitalism
  - Variegated capitalism is more than national VoC
  - Finance is more than money, credit, or capital relations
  - Hierarchy of money and currency pyramid
  - Financialization is more than growth of financial activities relative to other sectors or financialization of everyday life
- Need to study new forms of money and their dynamics, especially derivatives as forms of interest bearing capital

Immediate Origins of the Crisis

- NAFC arose from “capitalist speculation and finance” rather than a type of “free trade in markets and capitalist production”
- Its was enabled by “unusual deals with political authority” (de-regulation of finance, rising income and wealth inequalities, etc) and “predatory political profits” (due to roll-out of neo-liberal regimes, “disaster capitalism”)
- Yet NAFC has specific form due to *hyper-financialization* of advanced neo-liberal economies, especially de-regulated, intransparent, and often fraudulent financial institutions
- NAFC has triggered crisis *in* neo-liberal, finance-dominated accumulation regimes in a world market that has been re-organized in the shadow of neo-liberalism

From Debt Crisis to Sovereign Debt – I

A conventional story (Reinhart and Rogoff) based mainly on empirical observation over long historical period (which does not capture critical recent shifts in financial system)

- *Private debt surges* are common before banking crises; states often contribute to this stage of borrowing boom
- *Banking crises* (domestic and/or foreign in origin) often precede and/or coincide with sovereign debt crises
- *Public borrowing speeds up markedly* ahead of sovereign debt crisis; governments often have big "hidden debts"
- Shift to *short-term maturities* is also common feature of sovereign debt, increasing liquidity risks for refinancing

From Debt Crisis to Sovereign Debt – II

Another story (alternative and/or supplement):

- De-regulation, internationalization, shadow banking lead to excess credit created via fractional reserve banking and new instruments, such as derivatives, in search of high and quick rewards (financial speculation > financial intermediation)
- Much of excess credit was fictitious capital (capital as property rather than functioning capital) that bore little relation to growth potential of underlying 'real economy'
- Liquidity and solvency crises resolved via state fiat money (backed by tax capacities of states) and rise of public debt then leads via bond markets to demand for austerity politics
- Crisis generalized through contagion effects of crisis in top currency and euro as negotiated currency

Governance Crisis or ...?

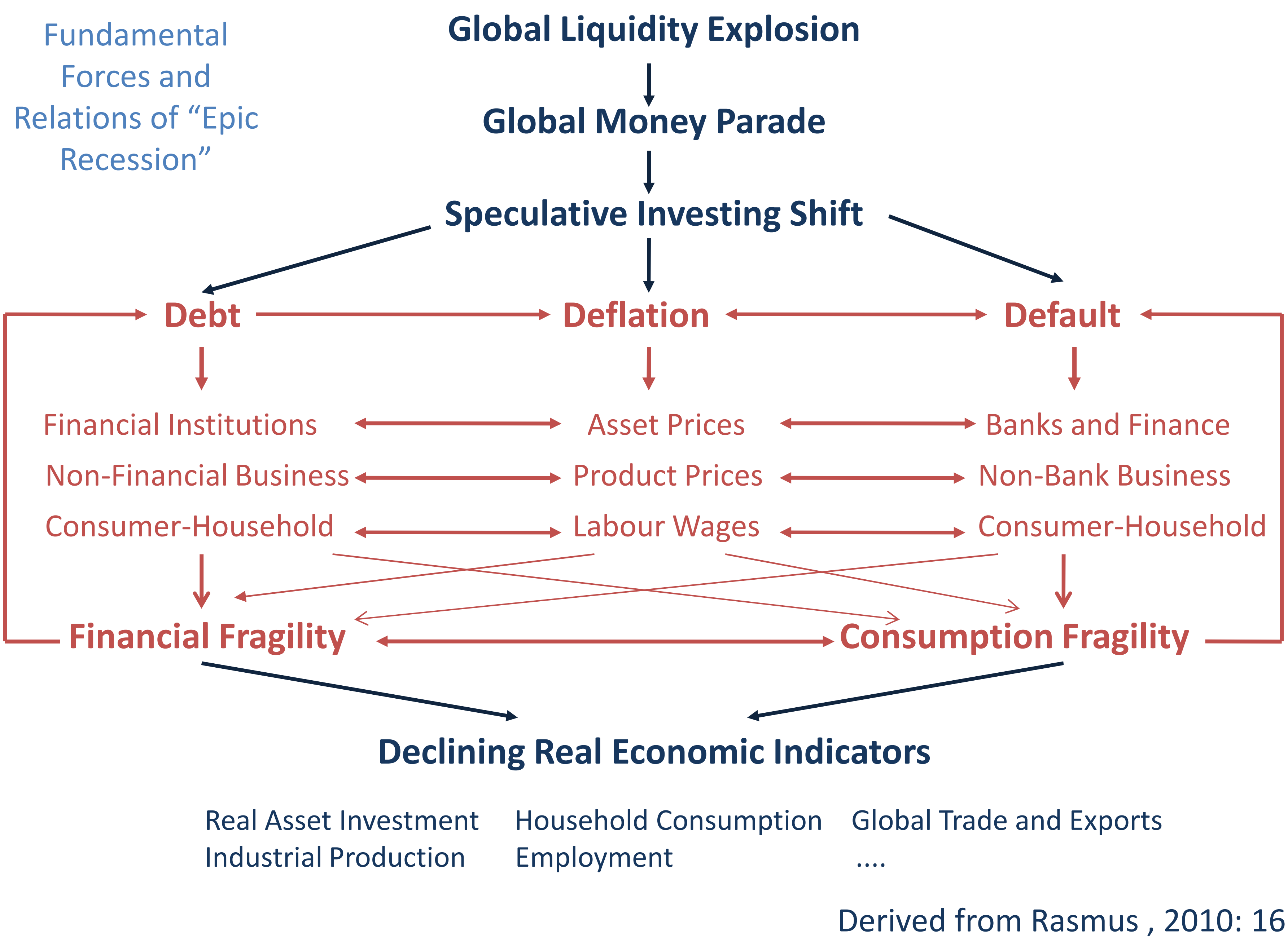
- Symptomatic data do not *explain* the origins of credit, sovereign debt, and competitiveness crises in Eurozone
- Four main readings:
  - Crisis of governance or international regime(s) resolvable through better economic governance mechanisms and/or deeper fiscal and political integration
  - Economic crisis due to lost competitiveness in the PIIGS, resolvable through neo-liberal policies and austerity
  - Debt-default-deflation crisis, partly rooted in some cases in a Minsky crisis encouraged by first 'benign' years of EMU
  - Structural crisis of latent incompossibility (of one kind or another) between most or all Eurozone members

… Debt-Default-Deflation Crisis?

- Eurozone crisis is not just another Minsky-induced recession nor another crisis of competitiveness in individual economies – for both, there are routine crisis-management responses
- Crisis has evolved into epic recession, based on financial and consumption fragility, that is creating a debt-default-deflation trap (already well under way in Eire, Greece). This aggravates the credit and competitiveness crises in EU
- Rigidities of EU and Eurozone plus strong interdependencies create pathologically compossible variegation, impossible choices, and threaten to turn EU into an incompossible dream

Rasmus on Epic Recession

- Rasmus (2010) distinguishes normal recession, epic recession, and great depression; GFC has generated an epic recession in *some* (not all) advanced economies
- Normal recession (whether rooted in production and/or monetary crisis) turns into epic recession through vicious interaction among debt, default, deflation
- Debts that cannot be settled produce default, distressed selling to settle other debts leads to deflation, default and deflation aggravate situation of debtors, and so on
- Whether epic recession then leads to great depression depends on wider conjuncture and policy responses


Fundamental Forces and Relations of "Epic Recession"
Global Liquidity Explosion
Global Money Parade
Speculative Investing Shift
Debt
Deflation
Default
Financial Institutions
Asset Prices
Banks and Finance
Non-Financial Business
Product Prices
Non-Bank Business
Consumer-Household
Labour Wages
Consumer-Household
Financial Fragility
Consumption Fragility
Declining Real Economic Indicators
Real Asset Investment
Household Consumption
Global Trade and Exports
Industrial Production
Employment
....
Derived from Rasmus , 2010: 16

Crises of Crisis-Management

- Crisis is specific to finance-dominated regimes (so unlike crisis of Fordism) in world market organized in shadow of neo-liberalism – with Eurozone in shadow of neo-mercantilism
- Crisis management routines for liquidity and solvency crises are failing because:
  - extent of world market integration (generalizing, intensifying contradictions),
  - this is an epic recession, not normal recession
  - political paralysis at global level and in states linked to top currency (USD) and leading negotiated currency (Euro)
  - capture of key power centres by financial capital whose profits derive from speculation and risk-taking
  - Divisions within power bloc(s) and crisis of capitalist hegemony due to growing inequalities of wealth and income

Conclusions

- Global crisis *in* variegated capitalism in world market organized in shadow of neo-liberalism, with many variations that are remaking uneven development
- In the EU, we are seeing a crisis *of* variegated capitalism organized in the shadow of Modell Deutschland (which is not a classic instance of neo-liberalism) but nonetheless dependent for growth dynamic of world market
- There is pathological *co-dependency* of US and PRC in world market (but no formal framework or regime); and pathological *compossibility* of German model and Club Med economies inside non-adaptive EU regime