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## The Return of Scarcity and the International Organisation of Money After the Collapse of Bretton Woods

### Introduction

"Money" wrote Bagehot, "will not manage itself" [1873/1915, p20]. This insight, as true now as when he penned his classic account of London's capital markets, is usually explained by highlighting the anarchical state of the capitalist financial system. Lacking a world state or global central bank, capitalist money has assumed the shape of a pyramid formed by successive layers comprising private (bank), state and finally world money – each layer promising final validation that its money is an independent form of abstract social wealth. Integrating this myriad of different monies thus defines, on a first cut basis, the problem that the international organisation of money seeks to resolve, with various 'solutions' formalised in a succession of international monetary regimes.

Yet this integrative problem is far more complex than simply resolving the anarchy of the market. Nor is it reducible to an analysis of inter-state rivalry over seigniorage rights or the competing interests of 'national' or 'fractional' capitals, despite the Left's obsession with charting successive international monetary regimes against the rise and fall of 'hegemonies' (gold standard/*Pax Britannica*; Bretton Woods/*Pax Americana*). Instead, this problem goes to the very heart of the problem of capitalist money itself – how is 'value' (abstract labour) integrated into the social form of money? This is a *problem of exploitation*, not market coordination within an "anarchical exchange process" [Itoh and Lapavistas, 1999, p56]. It requires exposing the *social power of money* rather than cataloguing its 'functionality' – a power that is only apparent by examining how capitalist money is integrated *in toto*.

While many commentators have recognised a resurgence of this power under the ideological auspices of neo-liberalism, in this paper I hope to situate this resurgent power in the radical global reorganisation of money that has occurred since the collapse of Bretton Woods. After highlighting the apparent paradox lying at the heart of this new regime, I briefly explore the challenge this poses to orthodox Marxist theory. I then suggest the defining characteristics of this new regime mark a return to monetary internationalism and thus a "*shift of state power to the world level – the level at which monetary terrorism operates*" [Marazzi, 1977/1995, p85]. Finally, through a political reading of this regime, I explore how it has leveraged open and destabilised the national economy, decomposing both the state and the working class as social reproduction is subordinated to the global rule of money.

### The Paradox of 15 August 1971

The Nixon Administration's New Economic Policy – unleashed on 15 August 1971 – not only ended Bretton Woods by abnegating the US's commitment to maintaining convertibility between the dollar and gold, but signalled a more general crisis in the techniques of monetary nationalism. This doctrine, which emerged triumphant within orthodox economic science after a long and divisive debate during the 1920s and 1930s, sought to mediate the law of value by driving a wedge between national currencies and world money, mainly through limited exchange rate flexibility and capital controls. This sharp break with liberal internationalism was a necessary precondition for the institutionalisation of the Keynesian strategy of harnessing working class struggle as a motor of capitalist accumulation through the pervasive manipulation of credit-money within the national economy. In the face of rigidities imposed by the rise of the mass worker, Keynesianism was an explicit recognition that the organisation of money

could no longer be left to the untrammelled workings of the world market. Money in short, needed to be managed by the state – its supply determined domestically to enable the manipulation of its price and value (interest rates and inflation respectively) in order to calibrate internal equilibrium conditions (such as effective demand and real wage flexibility) as determined by a monetarised class struggle.

The revolutionary nature of this spatial transformation in the organisation of money should not be underestimated. It was a direct attack on the cornerstone of liberal internationalism, undermining the “guarantee of bourgeois freedom - of freedom not simply of the bourgeois *interest*, but of freedom in the bourgeois *sense*” [Schumpeter, 1954, p406]. This ‘freedom’ in turn guaranteed that the organisation of money would be conducted on the principles of capitalist rationality. In an era marked by the rise of the liberal-democratic state-form, central banks and mass participatory politics, the spatial mobility of money - in essence the right of holders of national currencies to exercise convertibility – held the promise of *sound money*. Convertibility subordinated the state and its key organs such as the central bank to the power of world money, ensuring national fiduciary money could not be politicised and ‘debauched’.

Since 1971 the spatial barriers of monetary nationalism have been removed piece by piece alongside the reversal of the Keynesian strategy of monetarised class struggle. The once discredited doctrine of monetary internationalism has re-emerged as orthodoxy, and again money is constituted at the level of the world market through untrammelled flows of money-capital. Yet there is something radically different about this latest reincarnation of monetary internationalism when compared to its precursors – the classical gold standard and its lustreless interwar successor. Rather than subordinating the state and national money directly to a logic of scarcity by guaranteeing convertibility to global commodity money at par, this latest internationalism has combined a vastly heightened spatial mobility of money *with a dematerialised money-form at the level of the world market*. It appears to have combined a central goal of monetary nationalism – inconvertible and elastic money supplies – with the hypermobility of monetary internationalism.

The paradox raised by August 15 1971 is how a global monetary pyramid organised around an infinitely elastic paper money-form driven by fictitious capital has left us with a “sound money standard” [BIS, 1997, p2]? How has national austerity emerged from global financial excess? This paradox was not immediately obvious during the 1970s and most economists misread the collapse of Bretton Woods as an intensification of existing biases towards monetary nationalism and inflationism – a realisation of the Keynesian dream of “a world of macroeconomic autarky” [Dunn, 1983, p4]. Despite the obvious fact that the past two decades have seen a “process of global disinflation” [BIS, 1999, p4], many commentators on both the left and right have persisted with the view that the return of monetary internationalism has failed to impose the “rigorous anti-inflation discipline” of the gold standard [Turner, 1991, p104]. While it is true large deficits continue to be financed by capital flows, the underlying logic of the new regime has clearly imposed austerity over national economies to such an extent that the spectre of deflation now haunts most of Europe, the US and Japan. And it has done so without the need for commodity-money, confounding the predictions of orthodox Marxism and challenging its understanding of capitalist money more generally. In the following section I briefly explore this problem in order to offer an alternative conceptualisation that focuses on the foundations of the social power of capitalist money.

## Form and Content in Capitalist Money

Given the gold fetishism that has constantly tarnished the arid functionalism that passes as analysis within orthodox Marxist monetary theory, one might have thought the fundamental transformation occasioned by the dematerialisation of the money-form would have drawn a detailed response. Yet surprisingly it appears to have been largely ignored. Without discussing the reasons for this avoidance, it clearly poses a significant challenge to a functionalist conceptualisation of money as “embodied value”. In contrast, exposing the social power of money does not require holding to this false absolutism over commodity money, but rather developing an understanding of the dialectic between form and content.

Instead of a passive singularity of form/content (embodied labour in a *thing*), we should conceptualise money as an *antagonistic unity* of form and content. This antagonistic relation between form and

content is internal to the social category of money, meaning transformations in the money form are a *mode of existence of class struggle* [Bonefeld *et al*, 1992] - the external expression of the struggle between the social form (abstract social wealth) and value content (exploitation) of money. This form/content dialectic charts capital's struggle to subordinate labour through the imposition of the commodity-form through the act of exchange. It is the movement of this contradictory and antagonistic *social relation* that causes money's form to be "stripped away" [Rosdolsky, 1974, p67]. Indeed as Mohun argues, "the way in which form is developed out of content gives form a real independence of content such that it can appear to contradict its own determinants" [1994, p226].

Orthodox Marxism has displayed an ingrained if misguided habit of measuring this apparent 'gap' or independence by the distance the money-form has travelled from a content that is assumed must ultimately correspond to an essentialist "determinant" - the commodity-form itself - rather than seeing this gap as a *barometer of labour's refusal to work*. Clinging to the view that only commodity money can fulfil the necessary 'functions' of money has led Marxists into theoretical, political and historical absurdities created by a false absolutism over a form of money already an anachronism by the close of the Great War. If one holds to this view but admits to its absurdity, then the only logical conclusion is to argue that contemporary money - a substanceless nothing - is devoid of content and is in fact not 'money' at all. Late capitalism, in short, has become an economic system independent of money, superseding the law of value - a position argued by Fleetwood [2000] and Kennedy [2000]. Itoh and Lapavistas make a similar point by referring to "the pathological implications" of extinguishing commodity money [1999, p264].

These arguments strike me as unconvincing. While the 'universal equivalent' reduces all to the flat monochrome of price, surely it is its ability to transform the "form-giving fire" of concrete labour into abstract labour through the wage form that is fundamental. I see no reason to believe this 'value relation' has been superseded under late capitalism. Undoubtedly the drawn out dematerialisation of the money form was the result of working class struggle against the law of value. Yet to conclude from this that dematerialised money necessarily lacks the "ontological" depth required to maintain an internal relation between value form and content [Kennedy, 2000], sits uneasily with the experience of the past 30 years. The problem seems to depend on how this 'content' is understood. If the law of value is conceptualised as the struggle between necessary and surplus labour (the spheres of imposed work and non-work) [Palloix, 1977; Negri, 1991], then it follows that money must prove its content by enforcing the capitalist relation of work. The power of money lies in its "*power to command* labour and its products" [Marx, 1844/1984, p295] - a moment of domination and coercion by a *thing*. Or putting this in reverse, "the powerlessness of the individual with respect to society... is experienced as the absence of a thing, money" [Lebowitz, 1992, p79].

The problem then crystallises into tracing how a constantly transforming money-form continues to express a content of exploitation, ie how does the generic (content) exist as a constitutive moment of the specific (form)? The answer does not depend on money taking the form of a commodity, but rather whether it assume a form capable of expressing a socially constructed scarcity mediated through the mechanism of market exchange, creating a web of monetarised social relations. This requires the transposition of scarcity to money itself, whether in commodity or paper form, ie money must be 'hard'. In short, money must itself be experienced as scarcity - the necessary moment of coercion endlessly drawing individuals back into the act of market exchange. Money interposes itself between individual 'needs' and object (social wealth) as a moment of exclusion or inclusion - "the pimp between need and object, between life and man's means of life" [Marx, 1844/1984, p375]. This *lack* of access to social wealth constitutes the basis of money's power to command the individual *deprived of ownership over the means of production*, for only the sale of their alienated labour can secure the medium required to enter exchange relations. I should stress that capitalist money is predicated on this moment of alienation which it cannot overcome (as claimed by *Proudhonists* and other monetary cranks). However, its power to mediate and bring to life a relation of exploitation through the wage form is always contested and thus the intensity of this relation is variable. In short, while the social mode of existence of money (its form) is continually transformed, its value content is neither emptied nor reified and static, for it is a *social relation*. *The only value capitalist money can ever have lies not in the supposed dead*

*labour embodied within it, but in the living labour it is able to command.* Without this act of command, specie is sterile, fiat money no more than wastepaper and electronic money so much cyber-trash. While this apparently simple formulation of social power located in acts of exchange seems distant to the world of *haute finance*, money's 'hardness' (or scarcity) is ultimately dependant on the form assumed by money. Form, as we have seen, is a mode of existence of class struggle, and it is this struggle that forces the organisation of money beyond the liberal-democratic state form, which while essential for the longer-term durability of capitalist domination, has proven problematic in reinforcing money's social power. It is only in the world market that the capitalist monetary pyramid can have any hope of cementing itself to a principle of scarcity and it is here – in the global integration of money where its final form is constituted – that we see this mode of class struggle expressed at its highest social level. It is only at this level that we can begin to gauge money's ability to grip living labour, and in the following section I draw upon this conceptual framework to unravel how the *global* dematerialisation of the money-form since 1971 has sought to close the 'gap' that had opened under Keynesianism between money's form and content through *a return to scarcity* constructed upon financial excess.

## The Post Bretton Woods Regime

The Bretton Woods regime finally collapsed as official parities were repeatedly tested by speculative flows of hot money. While the resurrection of these flows has usually been ascribed to the inflow of either petrodollars or excess greenbacks following the US's malignant abuse of its seigniorage powers, the rise of Euromarkets predated the oil shocks, while US deficits had only a minor bearing on the decision to park money off-shore [Dufey and Giddy, 1994]. The decision by holders of money-capital to 'invest' offshore, whether 'foreigners' or 'US residents', was instead an act of flight from the struggle of the factory floor to the heady, enchanted world of speculation and fictitious capital. By 1970, US corporations were estimated to have currency portfolios of \$30-35 billion – three times the size of US government reserves [Tugendhat, 1973], while financial assets increased from 19.8% of total corporate funds in 1966 to nearly 26% by 1973 [Council of Economic Advisers, 1981]. Currency speculation in particular was rife, "reflecting an erosion of confidence in paper currencies" [BIS, 1974, p14], leading to enormous volatility within foreign exchange markets.

Yet behind the monetary chaos of the 1970s, several West German monetary theorists and technicians such as the central banker Otmar Emminger and Professor Giersch from the neo-liberal *Institut für Weltwirtschaft*, began to perceive a logic capable of short-circuiting the impasse in Keynesian class management. According to Giersch, the "international currency market served to police the system and impose discipline on national governments". Furthermore, while this reversion to heightened capital mobility witnessed wild overshooting in exchange rate adjustment, Giersch clearly recognised in this not a market failure as commonly portrayed, but rather a mechanism to impose from above the necessary discipline over labour. This strategy was founded on the *dislocation* imposed by a permanent crisis in the international organisation of money – decomposing working class formations through imposed austerity that found leverage in the massive disruption generated by vast and rapid movements of liquid capital. "Only a drastic change would have aroused people to make such an adjustment" argued Giersch, referring to "the loss of a million jobs in Germany and the creation of several million jobs in the United States". "Under those conditions" he suggested, "control of capital movements would have got in the way of the necessary market signals and stifled responses that were highly desirable. It was always necessary to look beyond short-term adjustments and short-term capital flows and take account of the underlying forces at work" [1981, pp228-9].

The last thirty years has seen the further development of this 'adjustment' model constructed on the shift to a purely fiat global money standard. Foreign exchange markets have continued to expand in scale and scope and now constitute "the core of the international financial system... the largest, the most liquid, the most innovative, and the only 24-hour global financial market in the world" [Ito and Folkerts-Landau, 1996, pp1-34]. By 1992 daily turnover had reached a figure equal to 86% of total world fiat reserves, dwarfing the resources of individual central banks. By 1995 it exceeded the total equity of the world's largest 300 banks [Ito and Folkerts-Landau, 1996]. As of April 2001, average daily

trading was \$1.2 trillion [BIS, 2002], less than 2% of which related to trade in goods and services. Other financial markets are minnows in comparison, with the next largest (using 1995 data) - US government securities - averaging \$175 billion daily turnover, while the average for the ten largest stock markets was a mere \$42 billion.

Driving this vast market is a 'new' form of convertibility – not a guaranteed parity to bullion, commodity-money or pseudo-world money – but simply the right to switch currencies at will, in a sense a return of the old liberal freedom of mobility. While a few centres have retained fixed parities (notably Euroland), the underlying trend has been towards flexibility in conversion rates. Although only gaining *de jure* legitimacy under the Second Amendment to the IMF's Articles of Agreement announced at Jamaica in 1976, between 1975 and 1997 IMF members with floating currencies rose from well under a third to nearly two-thirds [Eichengreen, 1999]. Furthermore, the heaviest traded cross-rates – USD/EUR, USD/JYP and USD/GBP - are all floating. This act of conversion, as I mentioned above, is in essence an act of movement or flight, and the suppliers of money (nation-states) "face the continuous distrust of money users who will switch in and out of currencies at the whim of slight changes in confidence in these moneys" [De Grauwe, 1989, p10]. For major currencies, quoted prices can change 20 times a minute, while the now extinguished USD-DM cross-rate altered up to 18,000 times a day [Ito and Folkerts-Landau, 1996]. Unsurprisingly, volatility in foreign exchange markets has escalated to unprecedented heights, often reaching levels five times or more than those experienced under Bretton Woods. Furthermore, supposedly core economic relationships such as the assumption of purchasing power parity – a cornerstone of money's alleged neutrality – have been thrown akimbo as exchange rates overshoot, deviating from 'fundamentals' not just momentarily, but for weeks, months, even years. What drives such enormous and fickle flows through foreign exchange markets and how does this lead to a "sound" global integration of capitalist money? It is clear traditional balance of payments theory, particularly in its Keynesian formulation as developed by monetary nationalists such as Lerner, Meade and Machlup, is now totally inadequate as an explanatory model. Within this framework the determination of exchange rates was made by 'real' economy mechanisms such as the Marshall-Lerner condition and Keynesian absorption strategies. The capital account was viewed largely as a 'residue' factor off-setting current account deficits or surpluses. This is no longer a sustainable view given the minor role played by flows of goods and services relative to total foreign exchange transactions. Like the tail wagging the dog, capital flows are now the central driver of exchange rates, at least in the short to medium term. These flows in turn reflect the enormous expansion in global liquidity that has occurred under a pure fiat system that contains no material barriers blocking the endless creation of money. As the BIS noted, there is "no single 'anchor'... for the system as a whole" [1997, p144], and subsequently no final global 'validation' of pseudo socially validated money in the orthodox sense (convertibility into commodity-money).

Predictably, the outcome has been a massive increase in global monetary reserves, of which over 90% now comprises 'inconvertible' (ie paper) foreign exchange, creating an "International Monetary Scandal" in the words of one long-time critic [Triffen, 1991]. More fundamentally, the dematerialisation of money has made the conceptual distinction between the credit and monetary systems largely meaningless. Marx once suggested "money – in the form of precious metal – remains the foundation from which the credit system, by its very nature, can never detach itself" [1974, p606]. This is no longer true and clinging to a monetary theory of credit seems either irrelevant [De Brunhoff, 1976], or simply erroneous if it leads to a conclusion that the failure of reality to match this 'analytically prior' theory is a further sign of monetary pathology under late capitalism [Itoh and Lapavistas, 1999]. Such an approach tells us nothing about how abstract labour is integrated into a valueless value-form – credit money – within the circuit of capital as a whole (the world market). It offers no insight into how this transformation has been a constitutive moment in money's renewed power to globally enforce work through the commodity form. The fusion of money and credit into a single anchorless system has seen an explosion of "Mother Credit", with domestic bond markets now topping \$33 trillion compared to less than \$1 trillion in 1970, with an additional \$9 trillion issued on international markets (up from \$900 billion in 1987) [BIS, 2003a]. Apart from ongoing lax pseudo-validation by central banks at the least sign of crisis, other processes such as securitization (pooling homogenous financial assets into tradable securities) and disintermediation (issuing bonds directly to the market) have added further fuel. In the US,

securitisation of consumer credit increased from less than 4% in January 1989 to nearly 36% in March 1993, while over 50% of mortgages are securitised (and now comprise 15% of total foreign claims on the US). Dematerialised money stands alongside this mountain of paper as just another asset class to be traded and speculated on like any other (the current trend is towards “currency overlay management” – unbundling currency risks from underlying assets and ‘managing’ it separately). Clearly distinctions remain between ‘money’ and ‘credit’, particularly in their inter-temporality, while money still has the special property of legal tender within national jurisdictions (although even these distinctions are fuzzy at the margins, such as M4). The fundamental point however, is that money cannot look back reassuringly upon a gleaming hoard of reified human labour as somehow backing its promise of embodying validated social wealth. To honour this promise, money must ensure it does not “lose its grip” (*begriffslos*) [Bonefeld, 1995] over living labour in the here and now, while credit exists as a claim on future labour.

Whether as ‘money’ or ‘credit’, each promise is continuously judged and priced by the market as it assesses its ‘value’, creating an environment of ceaseless competition by widening the act of conversion beyond competing national currencies to the entire spectrum of financial securities. Any number of events that may directly or indirectly impact upon an economy (or simply expectations of such events) – including inflation differentials, government finances, interest rate movements, current account figures or labour unrest – can be seized on by the markets as they constantly sit in judgement. National ‘IOU’s’ judged negatively by the markets are discounted or even rejected (ie liquidity in that asset ‘disappears’). As the IMF noted, “investors have displayed an increasing tendency to discriminate between regions and countries in response to changes in economic fundamentals, and this has been reflected relatively quickly in the behaviour of capital flows” [Folkerts-Landau *et al*, 1997, p63].

This competition creates enormous volatility within global financial markets. Taking bond markets as an example, the “relentless search for higher yields” [BIS, 1997, p118] leads to constant churning as bondholders trade with scant regard for underlying maturity structures. According to BIS figures, the average holding time for US notes (maturity of 1 to 10 years) and bonds (maturing over 10 years) is approximately 1 month (similar figures apply to Japan, Germany and the UK). For T-bills (maturing between 3 months and 1 year), the figure is approximately 3 weeks [Henwood, 1997]. Even more dramatically, the IMF claimed daily trading of \$400 billion out of a total stock of \$3.4 trillion of US government debt in 1990, suggesting “that the entire volume of marketable debt turns over on average once every eight days” [Goldstein *et al*, 1993]. Overall, daily transaction levels in the US government bond market as a percentage of total stock increased tenfold between 1985 and 2002 [see <http://www.bondmarkets.com/research/statist.shtml> for current data].

These ceaseless acts of conversion within and between asset classes are heightened by the spatial configuration of money-capital circuits, which have become simultaneously *decentred* and *integrated*. While London and New York of course remain central, there is no longer any single hub or geographically dominant centre [Germain, 1997]. Instead multiple nodal points create a market constituted not by place or location, but by space – or rather the ability to shift across the spatial web created by these multiple points. This in turn heightens the defining spatial characteristic of the new regime, which is *movement*. Of course, movement in itself is meaningless. What is important is how this decentredness actually integrates the world market through the constant spatial rearrangement of financial assets. With the progressive breakdown of regulatory barriers constructed on the ontological pre-eminence of the nation-state as the defining spatial boundary of the ‘economy’, one national economy after another has been integrated into these global circuits. Fundamental was the removal of exchange controls - the regulatory cornerstone of Bretton Woods. Beginning with the US in 1974 and accelerating with the dismantling of capital controls by the Thatcher government in 1979 and Japan in 1980, liberalisation came in quick succession to Australia in 1983, New Zealand in 1985, France and Denmark in 1989, followed rapidly by Italy, Austria, Ireland, Sweden, Norway and Belgium in 1990, with the rest of the OECD catching up in the early 1990s [Helleiner, 1994; Goodman and Pauly, 1993]. The geographical coverage of financial markets grew rapidly in line with this. In 1980 only a handful of countries had established markets for Treasury bills, certificates of deposit and commercial paper; by 1991 few in the OECD did not. Similarly for options and futures, coverage grew from the US and Netherlands in 1981 to virtually all industrialised countries by the early 1990s [BIS, 1992].

Integration in turn has led to vast increases in *cross-border transactions* in financial securities over the past 30 years. In the US, cross-border transactions in bonds and equities as a percentage of GDP grew from 4% in 1975 to 213% by 1997, while Canada, Germany and France experienced similar increases (3% to 358%, 5% to 253% and 5% to 313% respectively) over the same period. These cross-border flows are reflected in the growing percentage of assets held by 'non-residents', which in the US is now equivalent to 77% of GDP. For example, foreign holdings of US public debt rose from 14.9% in 1983 to 40.1% in 1997, while over the same period Canada and Germany saw increases from 10.7% and 14.1% to 23.1% and 29.3% respectively. Cross border holdings of bonds reached \$7.4 trillion by 2001, while bond market correlations, especially with US securities, have increased as a result of arbitraging [BIS, 1998; 2003a].<sup>1</sup>

These transactions impact on exchange rates for the simple reason that *financial integration can only occur through the medium of national monies*. All financial securities (including their associated 'products' – the first, second and third order derivatives used to hedge against and speculate on price movements in the underlying asset), are denominated in particular national currencies - a direct consequence of the failure to construct a viable form of world money – and hence global transactions are usually mediated through the foreign exchange market. The implications are important, for shifts in asset portfolios (including money holdings), are likely to generate large flows through the foreign exchange markets. Similarly, any factors that suggest immanent changes to exchange rates (currency risk) can shift asset holdings (by affecting the risk/return profile of portfolios), immediately impacting on foreign exchange markets.

This constant cross-border churning of financial assets is driven in large part by the "activist asset and liability management culture" of institutional investors [BIS, 1993, p222]. Activist is a polite way of saying short-term and speculative strategies hoping to 'beat' the market prevail over more traditional 'buy and hold' investments, and these new leviathans of global finance - pension funds, insurance companies, bank trust departments, mutual funds and 'macro' hedge funds - shift in and out of currencies as they do equities and fixed income assets. The central role of institutional investors in integrating financial markets can be gauged from the average holding of foreign assets by institutional investors, which approached 20% by the late 1990s - a figure translating into roughly \$4 trillion of invested funds capable of being reshuffled rapidly in line with perceived shifts in risk/return outlooks.

We are now in a position to summarise how the key characteristics of this new regime interact and reinforce each other to constitute a global organisation of money capable of enforcing a regime of austerity – a *return of scarcity* imposed by a substanceless and infinitely elastic money-form. The fundamental transformation has been the integration of an anchorless money-form into credit markets, forming massive global portfolios that surge through exchange rate mechanisms as supply and demand ebbs and flows. This mediation "highlights the foreign exchange's role in transferring liquidity from one currency to another" [BIS, 1996, p96]. It is this "migration of currencies from one area to another" [Giersch, 1981, p229] that lies at the heart of the new international monetary regime and its overarching strategy of imposed scarcity. Decentred markets driven by a relentless search for short-term returns and high risk have a greatly magnified "capacity to re-denominate the currency composition of its assets at short notice" [Goldstein *et al*, 1993, p22]. The organisation of money is determined globally through these vast, rapid portfolio recompositions, manifesting as sharp movements in liquidity preferences for particular currencies and resulting intense pressures on exchange rates.

Where the control of global liquidity under Bretton Woods mediated and weakened the global law of value, the new regime of convertibility – based on *mobility* and *competition* – has recalibrating the law of value in favour of surplus labour. National currencies have been globally reintegrated, infusing money

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<sup>1</sup> It should be stressed that cross-border flows **do not** include 'foreign' ownership of the \$33 trillion of domestically issued bonds. For example, government securities are classified by the BIS as domestic bonds, even though we know that around 40% of US government bonds are 'foreign' owned. As the BIS notes, "with more and more countries liberalising their capital accounts and financial markets, the distinction between international and domestic markets has become less meaningful over the years" [BIS, 2003b, p39]. The upshot of this is that cross-border flows are in reality far larger than cross-border figures suggest.

with the social power to command which manifests within national boundaries as the subordination of social reproduction to the capitalist relation of work [Bonefeld, 1993, p46]. It has not required a return of commodity money - an unnecessary anachronism - nor does it signal the 'end' of capitalist money. It has instead created new pathways to enforce the principles of scarcity over national monies by their direct and immediate integration into the hypermobility of global financial markets. Furthermore, this new form of integration has reversed Gresham's Law. Rather than the sterile act of hoarding, money judged as 'bad' is driven from global markets, either experiencing severe discounting, or at worse totally expunged and sent in disgrace back to its national space. Such a rejection can entail not just a country's money but its entire pyramid of financial assets with devastating effect - at worst occasioning complete economic, political and social collapse (for example, Asia and Latin America), or at best a severe warning that greater austerity is required (for example, Euroland). However, to gain a better understanding of how this regime has created space for the reimposition of scarcity at the national level requires a more nuanced political reading of credit.

## Debt, Risk and Instability: Reading Credit Politically

The IMF in its usual fetishistic fashion considers the foreign exchange market a giant "mechanism for pricing tradable wealth internationally" [Goldstein *et al*, 1993, p5]. It is no such thing. It is rather a giant mechanism for pricing and judging *debt* - a form of wealth yet to be. To read this new regime politically one must conceptualise the global network of financial markets not as channels for *allocating credit*, but rather as mechanisms to *create, distribute and control debt*. Debt of course, is the counterpart to credit. Yet the social relationship that constitutes the singularity credit/debt is contradictory, antagonistic and contested. While credit extends social relations into the future, weakening market discipline, its counterpart debt seeks to impose the rule of money (exploitation) in the here and now. Debt creates a social space for the re-imposition of the social bond(age) of money and thus the capitalist relation of work, an essential moment if credit is to crystallise as social wealth. By tightening these linkages, the \$42 trillion of interest bearing capital currently in existence has acted as a point of fulcrum for the imposition of austerity at the level of the national economy rather than a mechanism weakening the social bond of the market.

Credit is a leap of faith, a view reinforced by its Latin derivation of *credere* - 'I believe'. While Sismondi suggested credit is "an exchange of a reality against a hope" [Perelman, 1987, pp181-2], the genealogy of debt suggests creditors have relied on more than faith or hope. Creditors have typically had access to socially ordained powers to impose sanctions on a defaulter. Etymologically this ability to punish is clear. The German for both guilt and debt is *Schuld*, closely linked to the infliction of punishment, debt thus being 'backed' by suffering, while *Geld* (money) is supposed to have originated from *Vergeltung*, the settling of scores or revenge [Nietzsche, 1887/1989; Ingham, 1996]. Mortgage in its medieval usage refers literally to a 'death pledge' or 'death grip'. The creditor will be repaid - if not in money than in kind, with the suffering of those who have broken faith. As summed up by one Swiss central banker, between creditor and debtor "the strategic situation is as simple as it is explosive" [Egli, 2000, p275].

Globally the situation is no different. "Punishments" according to Egli, "are the driving force behind international lending" [2000, p279], and the vast increase in global debt over the past three decades suggest a commensurate increase in the vulnerability of debtors, not just within the debt laden South but throughout the totality of capitalist social relations. The source of this vulnerability, as I've tried to highlight, is simply the globalised, mobile and competitive nature of debt markets. What is unique is how the credit and monetary systems have become entwined and diffused in complex ways that mutually reinforce each other in the imposition of austerity. Debt (as opposed to credit) supports money's social power to command labour, while sound money places constant pressure on debtors by forestalling the possibility of debt relief through inflation. However, it is still unclear how this vulnerability manifests as socially imposed scarcity at the level of the national economy.

The answer lies in identifying this increased vulnerability with the *risks* generated by the new international monetary regime which on realisation seep into every crevice of social reproduction at the level of the national economy. Of course risk permeates financial markets and as the IMF notes, "financial instruments are bundles of risks" [Adams *et al*, 1998, p191]. The orthodox line is that financial markets "manage, allocate and price risk", although many market analysts go further in their attempts to justify the massive growth in financial markets, suggesting they spontaneously develop mechanisms capable of cancelling risk as a whole. In this view generated risks produce their own antibodies – a pathological response "like in infectious viruses" [Darby, 1994, p1]. In contrast, Barclays Bank CEO Martin Taylor suggests "risk, like energy, is neither created nor destroyed, merely passed around" [*The Economist*, 1996, p10]. Of course risk results from social actions rather than some cosmic force as Taylor's analogy suggests and it is difficult to avoid the conclusion that markets are in fact *creating* risk on a massive scale. Fuelled by "a growing acceptance of lower-rated issues [over 70% of corporate bonds now issued in the US are rated A+ or below] and a proliferation of increasingly complex structures", markets have displaying alarmingly "permissive attitudes towards risk" [BIS, 1996, p10;1999, p102].

Risk in turn generates *instabilities* and as Martin notes, "it is within the nation state that the instabilities of global money appear" [1994, p274]. These instabilities confront the domestic economy in a number of forms as national currencies exist as both asset and medium in the constant reshuffling of global debt, filtering through a multiplicity of connections linking domestic price structures and ultimately monetarised social relations to global money. These integrative mechanisms are far more diffused and complex than those found under the earlier monetary internationalism of the gold standard, but the final outcome is similar once private risks are socialised within 'national economies'. I'll explore two such mechanisms – the exchange rate and the state – although numerous other transmission belts for austerity exist, such as the demands of ratings agencies on corporations seeking to enter the global corporate bond market, or the influence of global institutional investors on equity markets, particularly their focus on 'shareholder value', ie job cuts to bolster share prices.

The exchange rate is of course meant to act as a basic adjustment mechanism for the domestic economy and early monetarists touted flexibility as a painless panacea for the disruption caused by capital mobility. Experience has proven otherwise as flexible exchange rates have transmitted sharp and volatile shocks to the economy through churning real exchange rates capably of gutting entire sectors. Evidence over the last twenty years has shown real and nominal exchange rates move in tandem, meaning rapid shifts in nominal rates generate significant changes in the patterns of international competitiveness. As Gourinchas concludes, "exchange rate movements affect significantly both net and gross factor reallocation" [1998, p64]. The transmission of competitive pressures – often into manufacturing sectors once pivotal to working class organisation such as auto and steel – has seen a concomitant collapse of the social forces that underpinned the political economy of the mass worker. The churning of global debt markets is thus reflected in a churning real economy – central to the decomposition of the working class and the imposition of austerity.

Instability assumes its most dramatic form at that moment when creditors' faith in the promises held collapses – a point signalled by crisis. Crises can manifest at various points of weakness depending on whether the exchange rate is fixed or flexible: the domestic financial sector, balance of payments or the exchange rate itself. Resolution will occur when faith is again restored in the continuing ability for debts to be serviced through an intensification of exploitation – the state is disciplined or restructured ('fiscal retrenchment') and domestic austerity imposed through unemployment and devalorised capital [Baldacci *et al*, 2002, p5]. Furthermore, institutional investors spread contagion across entire regions or beyond, "produc[ing] crises and sharp output contractions" [Kaminsky, 2000, p2]. While these linkages are usually spurious, herd mentality ensures the market acts first and analyses after: "safety first is the motto of investors when they smell a rat" [Dornbusch, 1998, p181].

It is clear that financial crises are “becoming more frequent, more severe, and less predictable” [Little and Olivei, 1999, p43], and despite impacting disproportionately on emerging markets, core OECD countries have not been immune. What unites all crises is the socialisation of private losses resulting from global financial speculation (we can include the costs of central bank intervention as well). The magnitude of these can be enormous – ironic given the high value placed on fiscal rectitude by the markets. In Mexico, the costs of bailing out the financial sector from the 1994 meltdown have risen steadily to more than 19% of GDP, while the costs for industrialised countries are hardly less significant (for example, the figures for Finland, Sweden and Norway in the Scandinavian banking crisis in the early 1990s were 8%, 6% and 4% respectively). Obviously bailouts of this magnitude divert public funds from alternative uses – such as welfare payments and infrastructure – not only in the short-term but for years after. In Thailand, where the public debt following the Asian meltdown was a modest 40% of GDP in 2000, the IMF was busily “urg[ing] the Government to cut public spending” [Cheesman, 2000, p12].

While these costs are heavy, “all too frequently, the subsequent macroeconomic effects [of a financial crisis] in terms of lost output and rising unemployment have been considerably more costly” [BIS, 1997, p166]. Estimates of the impact of the Asian crisis on the real economy suggest the loss of “at least one decade in the development race” for the region [Hartcher, 2000, p40]. The impact of the 1994 ‘tequila’ crisis on Mexico is well known as is who ultimately had to pay. As real GDP fell by more than 6%, eight thousand firms closed with official figures recording real wage cuts of 25-30% and household consumption falling by 25% [Baldacci *et al*, 2002; Strange, 1998]. In Thailand following the 1997 crisis, the number of Thais living below the poverty line jumped 15.9% during 1998 to 7.9 million, while nearly 7000 firms closed and unemployment hovered near 2 million.

Market surveillance ensures crisis and instability hangs over all economies as a constant threat, exerting a mundane but nevertheless powerful mechanism restricting the policy choices available to the state if it hopes to *avoid* crisis and *reduce* instability. This was intensified during the 1980s and 1990s as rapidly expanding government debt was integrated into global bond markets (ironically the proportion of government debt is now declining after a decade of fiscal consolidation, much to the consternation of financial markets who use this paper for benchmarking yield curves). As the IMF argued, “the largest economic entities in the industrial world [states] have decided that participation in world capital markets confers significant enough advantages to make it worthwhile to subject themselves to the unwritten rules of the marketplace” [Goldstein and Folkerts-Landau, 1994, p32]. Such ‘rules’ include the avoidance of “overly ambitious policies”, “more timely correction of macroeconomic imbalances”, “fiscal discipline” and “set[ting] domestic policies in such a way as to establish fundamentals which the markets will judge sound and sustainable” [BIS, 1997, p143; Goldstein *et al*, 1993, p22; BIS, 1995, pp116-119].

Indeed, the participation and integration of the state into global debt markets has seen the state itself “become the main vehicle, the pre-eminent carrier, of ‘embedded financial orthodoxy’” [Cerny, 1993, p80]. Whereas the state’s central role in organising money had previously laid the platform for monetary nationalism and the political economy of the mass worker, it now acts as a transmission mechanism for global austerity through the integration of national currencies into global debt markets. An important precondition for full integration has been the recreation of a *cordon sanitaire* of constitutional checks – originally monetary targets but more often inflation band targets since the 1990s – that have removed central banks from democratic interference. Sealing off the internal contradictions within the liberal-democratic state-form (such as politicised central banks) has been as vital to the return of scarcity as was their initial opening to Keynesian class management.

For workers this restructuring of the state is experienced in a multitude of ways – the privatisation of social services, the risk of falling through a shrinking welfare net, volatile interest rates impacting on personal debt repayments and so on. Underlying all these strategies at recomposing the liberal-

democratic welfare state is the attempt to enforce the capitalist relation of unbounded work, nicely summed up by MIT pedagogue Rudi Dornbusch, who recently argued that welfare recipients “need to be integrated into a normal social life – ie *a working life* – from which the welfare state in its perversion had given them unlimited leave” [1997, p5]. Ironically, a significant portion of the vast pools of restless money that hang over the state is comprised of workers’ savings (whether forced or ‘voluntary’), necessitated by the decomposition of the welfare state under the dictates of global monetary terrorism.

In short, whether actualised as crisis or simply a latent threat, market generated risks and instability act as points of leverage over the state, neutralising the pitfalls of social democracy that became readily apparent under Keynesian class management. Using Lukes’s [1974] typology of power, socially generated risk can exercise power over states in a simple one-dimensional fashion. **A** (financial markets or its institutional supports, such as the IMF) can force **B** (say the Brazilian state during the crisis of September and October 1998, where domestic interest rates doubled to nearly 50%) to do something it would not otherwise have undertaken (impose a three-year fiscal adjustment programme in order to access an IMF led support package). In effect Brazil was forced to “pursue the chimera of ‘investor’s confidence,’ while throwing the burden of adjustment over the shoulders of the poor” [Morais *et al*, 1999, p14].

However, global money capital can also exercise power in a more complex two-dimensional view, where **A** has the power to limit the scope of **B**’s decision making, excluding certain issues or conflicts from the legitimate sphere of (political) activity. It seems clear that the definition of what is and what is not ‘legitimate economic management’ is largely codified by “the unwritten rules of the marketplace”. This, rather than the spectacle of crisis, is the more formidable power of the new regime of monetary internationalism. Built on nothing more than worthless paper, it instils silence and closure that it throws like a shroud across the political and economic spheres of social life. It is in the successful avoidance of crisis through the decline of democratic choice wherein the real triumph of this reorganisation of money lies. What conservatives once decried as the state’s power of seigniorage - a power transmogrified through class struggle into a strategy of money nationalism - has melted away. The potential risks facing a state that ignores the dictates of global money - the “fucking bond-traders” so loathed by Clinton [Henwood, 1999, p24] - are too great to ignore.

## Concluding Comments

Efforts to explain the post-Bretton Woods regime as signifying the end of money, a pathological breakdown or more crudely a “Faustian bid” for global domination by the US [Gowan, 1999] fail to recognise that the radical reorganisation of capitalist money over the past 30 years has had one overarching goal, inchoate at first but increasingly clear - to *globally decompose all working class formations that resist the unfettered rule of money*. Money has become interwoven with credit, or rather *debt*, and on this mountain of financial excess scarcity has been monstrously born. Capital has fashioned a globally dematerialised money-form – itself a reflection of the circuits of struggle that ruptured the static Keynesian compromise of monetarised class struggle - into a weapon to impose austerity on the working class through endless crises and permanent instability that *materialise* and *socialise* within national economies the private risks generated in global financial markets. By expressing scarcity relations, this money-form is infused with a content of exploitation, with the social power to command.

Even more dangerous is to take a post-modern ramble amidst this world of “paper butterflies”. An article by Bill Maurer [1995] provides an excellent example of the dangers posed by accepting at face value the hyper-fetishism of global money. According to Maurer, the power of off-shore finance has, like Dorothy’s red slippers, carried the modern economy into “an atemporal nonspace”. Even more startlingly, this power “does not circulate itself through the human subject but through a new architecture of nonhuman units” which are also, apparently, located outside of time and space. For reasons unclear

to me, Maurer argues that the economic problem as defined by scarcity (modernity) has, for the "posthuman" subject existing in the complexity of offshore finance, simply disappeared off our merely human understandings of space and time [1995, pp117; 125; 136]. Apart from the obtuseness and meaninglessness of Maurer's cyber-punk musings, its political message is disastrous. Little separates his position (apart from the obtuseness) from those who celebrate the return of monetary internationalism, conflating it with a new techno-social paradigm that somehow symbolises "dynamism, universality, pervasiveness, irreversibility, inevitability, and positive destiny" [Winner, 1978, p52]. How can mere human 'units' located in time and space resist such forces? Indeed, does it even matter given the apparent gulf separating modernity (scarcity, production) and post-modernity (finance, post-scarcity)?

Of course it does matter, for the current organisation of money (including off-shore finance) is designed to ensure that those at the bottom bear the brunt of the costs of ceaseless global adjustment. Off-shore markets do not signify the transcendence of scarcity, but rather act as mechanisms for its vicious imposition over the global social relations of production, seeking the complete subsumption of working class reproduction to the dictates of the law of value – to the capitalist relation of endless work for all those "human units" unfortunate enough to be left behind in the twilight years of late capitalism.

## Postscript

While this article has made no attempt to pinpoint the limits of global money terrorism or outline counter-strategies that could be deployed against it, the above analysis points to some tentative conclusions. Firstly, it seems axiomatic that a fundamental goal of the Left must be to congeal hyper-mobile money - the cornerstone of money's social power to enforce the social bond(age) of the market. More than the threat of capital flight, mobility transforms credit into debt and worthless paper into sound money. Unless this power is undermined or tamed, it seems unlikely that the claims of "the multitude against Empire" [Hardt and Negri, 2000] will find sufficient traction to begin their full realisation. While it is extremely important for the Left to use a range of tactics and identify strategic goals, including global debt repudiation [Clever, 1989], Tobin-like taxes (useful despite clear limitations, see De Angelis, 1999), capital controls and global 'bancocide' [Caffentzis, 1995/2001], the purpose is not to 'reform' the financial system, establish a new financial 'architecture' or 'return' to Bretton Woods, but instead to counter a potent weapon that has been used with great success in decomposing the working class at a global level.

A second conclusion is that any analysis of this power must be tempered by the recognition of the obvious fragility of this 'regime', raising serious questions over its longer term viability. The crude mechanism of permanent crisis has proven itself a blunt and violent means to realise debt and enforce work, not only posing severe contagion risks that threaten systemic failure, but causing massive political and social upheaval that is counter-productive for capital. Furthermore, the paradox of the post-Bretton Woods order highlighted earlier in this paper can easily turn into outright contradiction when we recognise the *dynamic* requirements of this strategy. While scarcity depends on ensuring credit is constantly realised as debt, credit must be constantly expanded to avoid sinking the global economy into a vicious deflationary spiral. Yet this growing mountain of credit/debt is issued on an increasingly fictitious promise to pay – a point of debt saturation where the ability to repay becomes largely meaningless. The risks generated by this global organisation of money which drive a logic of scarcity become instead pathogens capable of collapsing the entire paper pyramid. At this point the post-Bretton Woods system appears to reach its limits, for the credit/debt singularity is ruptured and the antagonistic unity between money's form and content is pushed apart. Further credit simply breaks down the rationality of market relations, while a refusal to extend credit realises the fictitious nature of these paper promises, surely signalling systemic failure. While one may celebrate the fall of monetary terrorism, leaving 'regime transition' to the weight of its own internal contradictions would in all likelihood inflict such violence upon working class reproduction as to leave little to cheer about, making it

imperative that the Left continue to develop and organise counter-strategies before monetary terrorism drags us all into the abyss.

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